Ontario Energy Board
Commission de l'Énergie de l'Ontario

2006 ELECTRICITY DISTRIBUTION RATE HANDBOOK

May 11, 2005

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Chapter 1

1 Introduction to the 2006 Handbook

1.0 Introduction

The 2006 Electricity Distribution Rates Handbook sets out how the Board generally intends to address applications for 2006 electricity distribution rates. The Handbook is intended to provide applicants with a straightforward process by which to prepare their applications for 2006 electricity distribution rates.

The 2006 Handbook is composed of filing requirements and guidelines. The specific filing requirements that are set out in the 2006 Handbook are mandatory, and no application will be considered complete until all of these requirements are met. With respect to the guidelines, it is open to the Board to consider alternative rate-making principles at the request of an applicant. Applicants should be aware, however, that applications which are not consistent with the 2006 Handbook guidelines will require a significant length of time to process. Evidence over and above that required in the 2006 Handbook will be necessary to justify a departure from the 2006 Handbook methodology.

1.0.1 Application Components

The 2006 Electricity Distribution Rates Handbook is made up of the 2006 Handbook, and the 2006 rates spreadsheet model, referred to as the 2006 EDR Model. Taken together, these two components should provide a complete guide to the filing of an application for distribution rates for the 2006 rate year.

An application for rates in 2006 must, at a minimum, contain the following three parts:

- the summary of the application;
- the completed 2006 EDR model; and
- supporting schedules.

1.0.2 Summary of the Application

The summary of the application is a narrative description of the application, intended to provide context to the data filed in the 2006 EDR Model. The content will be similar to what was included in the Manager's Summary in previous rate applications, which provided a narrative description.

An applicant should include in the summary of the application any information that will assist the Board in understanding and assessing the application for rates. The content of the summary of the application is described in more detail in Chapter 2.

1.0.3 2006 EDR Model

The 2006 EDR Model is a series of spreadsheets in which the applicant enters the data required by the 2006 Handbook. The 2006 EDR Model includes a separate module, the 2006 OEB Tax Model, which calculates taxes or PILs.

In Chapter 3, the 2006 Handbook outlines an approach for setting 2006 rates based upon the use of an adjusted 2004 historical test year. The 2006 EDR Model will calculate a revenue requirement based upon the data submitted.

As noted later in the 2006 Handbook, there have been few changes made to the cost allocation and rate design portions of the previous rate adjustment model (RAM). The 2006 EDR Model will allocate costs and produce a rate schedule based upon the data inserted by the applicant.

1.0.4 Schedules

The 2006 Handbook identifies a number of supporting schedules that an applicant must complete and file. In general, these schedules provide more detail about data that is inserted in the 2006 EDR Model.

Not every applicant will have to complete every schedule. Some schedules are required only if a distributor has certain programs, or chooses to seek certain adjustments or amounts in the rate application.

A list of schedules is provided in Chapter 2, and the schedules are provided at the end of the chapters in which they are identified and described.

1.1 Filing Dates

Rate applications for 2006 must be filed as follows to facilitate the implementation of new distribution rates for May 1, 2006:

- Distributors in Group 1: no later than August 2, 2005
- Distributors in Group 2: no later than September 6, 2005

- Distributors in Group 3: no later than October 3, 2005, unless filing a forward test year application, in which case the application must be filed no later than September 6, 2005

The following are the groups of distributors:

Group 1:

- Aurora Hydro Connections Ltd.
- Barrie Hydro Distribution Inc.
- Bluewater Power Distribution Corp.
- Brantford Power Inc.
- Burlington Hydro Inc.
- Cambridge and North Dumfries Hydro Inc.
- Chatham-Kent Hydro Inc.
- Enersource Hydro Mississauga Inc.
- EnWin Powerlines Inc.
- Great Lakes Power Ltd.
- Greater Sudbury Hydro Inc.
- Guelph Hydro Electric Systems Ltd.
- Horizon Utilities Corp. - Hamilton Hydro Inc.
- Horizon Utilities Corp. - St. Catharines Hydro Utility Services Inc.
- Hydro One Brampton Inc.
- Hydro One Networks Inc.
- Hydro Ottawa Ltd.
- Kingston Electricity Distribution Ltd.
- Kitchener-Wilmot Hydro Inc.
- London Hydro Utilities Services Inc.
- Milton Hydro Distribution Inc.
- Newmarket Hydro Ltd.
- Niagara Falls Hydro Inc.
- Oakville Hydro Electricity Distribution Inc.
- Oshawa PUC Networks Inc.
- Peterborough Distribution Inc.
- PowerStream Inc.
- PUC Distribution Inc.
- Thunder Bay Hydro Electricity Distribution Inc.
- Toronto Hydro-Electric System Limited
- Veridian Connections Inc.
- Waterloo North Hydro Inc.
- Whitby Hydro Electric Corporation

Group 2: all other distributors serving 10,000 or more customers

Group 3: all other distributors. Note that any distributor in Group 3 that intends to file a forward test year application must file on the date required for Group 2.

The Board anticipates that if these filing deadlines are met, rate adjustments for 2006 will come into effect on May 1, 2006.

Chapter 2

2 Components of the Application and Schedules

2.0 Introduction

An applicant must file its rate application, including the completed 2006 EDR Model in hard copy and in electronic format. The electronic version facilitates analysis and review.

The completed 2006 EDR Model and the supporting schedules required by the 2006 Handbook are two components of the rate application. An applicant must also provide a summary of the application, which is to include the requirements set out in this chapter. The content will be similar to what was included in the Manager's Summary in previous rate applications. An applicant must include in the summary of the application any information that will assist the Board in understanding and assessing the application for rates.

An applicant is responsible for the completeness and accuracy of information submitted to the Board. The burden is on the applicant to demonstrate, through the evidence it provides, that the rates sought are just and reasonable.

In general, the filing requirements in the Handbook are minimum requirements. In filing its application, an applicant should consider whether there is additional information that will help the Board to review and evaluate the application. Such information should be provided with the application in order to reduce time spent in processing the application.

2.1 Components of the Application

The following outlines the components of the application that must be provided by the applicant.

2.1.1 Description of the Distributor

An applicant is to provide the following information as Schedule 2-1:

- name of the distributor;
- current licence number of the distributor;
- community or communities served;

- list of adjacent distributors;
- characteristics of the service area: urban, suburban, rural, mixed; and
- embedded or host distributor
- mailing address; and
- key contacts: name, title, telephone number, e-mail, fax number.

2.1.2 Corporate Structure

The applicant must provide a corporate organization chart identified as Schedule 2-2. The chart is to show the parent, affiliate, and subsidiary companies, with their relationships to the distributor.

The applicant must also include a summary description as part of Schedule 2-2 of the nature of each affiliate's business, the products and services provided to, or received from, each affiliate, and any corporate services shared with the distributor.

2.1.3 Audited Financial Statements and Reconciliations

An applicant must file its audited financial statements for 2002, 2003 and 2004 as Schedule 2-3.

Before an applicant files its rate application, it should have updated and confirmed its Reporting and Record-Keeping Requirements (RRR) filings with the Board's Chief Regulatory Auditor. It is expected that the confirmed RRR data can be used without change in the 2006 EDR Model. If a distributor does enter into the model data that differs in any way from the RRR data, other than is permitted in this Handbook, it must document and explain such differences and provide a reconciliation to the RRR data. Similarly, if the data used in the model is inconsistent with the audited financial statements filed with the application, a reconciliation must be provided. Both these reconciliations should be provided as an addendum to Schedule 2-3.

2.1.4 Compliance with Licence

The summary of the application must include a statement of whether the distributor has any special conditions in its licence, or if it is exempted from any conditions of its licence, that will affect the review of its application.

2.1.5 Complete Listing of Rates and Charges

The 2006 rate application process is focused on updates to distribution rates. There are, however, other rates and charges that have been approved by the Board that are not subject to this process and are not changing (e.g. retail transmission charges). An applicant must include a complete listing of the rates and charges that have been approved by the Board and are currently in effect as Schedule 2-4.

2.1.6 Summary of the Application

An applicant must submit a narrative summary of the application in order to provide a context for the data filed in the application. For consistency among all distributors, the applicant must format its summary of the application in chapters corresponding to the chapters in this Handbook.

2.2 Schedules

Several chapters in the 2006 Handbook require an applicant to provide specific information, and require supporting schedules to be filed. These schedules are listed below, for convenience. An applicant should refer to the relevant chapters for details as to what specific information is required in the summary of the application.

Chapter 2:	Components of the Application and Schedules
Schedules:	2-1 Description of the Distributor 2-2 Corporate Organization Chart 2-3 Audited Financial Statements and Reconciliations 2-4 Complete Listing of Rates and Charges
Chapter 3:	Test Year and Adjustments
Schedules:	3-1: Tier 1 Adjustments 3-2: Tier 1 Non-routine/unusual Adjustments 3-3: Tier 2 Adjustments 3-4: Conservation and Demand Management adjustments
Chapter 4:	Rate Base
Schedule:	4-1: Capital Expenditures
Chapter 5:	Cost of Capital
Schedules:	5-1: Weighted Debt Cost 5-2: Actual Capital Structure of the Distributor

Chapter 6: Distribution Expenses

Schedules: 6-1: Insurance Expense
6-2: Bad Debt Expense
6-3: Charitable Donations
6-4: Employee Compensation
6-5: Employee Incentive Plan Expense
6-6: OMERS Pension Expense and Post-Retirement Benefits
6-7: Non-OMERS Pension Expense and Post-Retirement Benefits
6-8: Distribution Expenses Paid to Affiliate(s)
6-9: Distribution Expenses Incurred Through Sharing Services with Affiliate(s)
6-10: Outsourced Distribution Services

Chapter 7: Taxes / PILs

Schedules: 7-1: Sharing Loss Carry-Forwards
7-2: October 2001 FMV Adjustment
7-3: Interest Expense

Chapter 8: Revenue Requirement

Schedules: 8-1: Derivation of Base Revenue Requirement
8-2: Revenue from Sources Other Than Board-Approved Rates and Charges
8-3: Regulatory Asset Recovery

Chapter 9: Cost Allocation

Schedules: 9-1: Customer Classification
9-2: Customer Eligibility Criteria
9-3: Allocation Factors to Customer Classifications
9-4: Non-default Allocation Factors to Customer Classifications

Chapter 10: Rates and Charges

Schedules: 10-1: Determination of the Fixed/Variable Splits
10-2: Unmetered Scattered Loads
10-3: Time of Use Distribution Rates
10-4: Transformer Ownership Allowance
10-5: Determination of Loss Adjustment Factors
10-6: Standby Charges
10-7: Low Voltage Charges

Chapter 11: Specific Service Charges

Schedules: 11-1: Specific Service Charges: Standard Amounts
11-2: Specific Service Charges: Standard Formula and Amounts
11-3: Specific Service Charges: Revenue

Chapter 12: Other Regulated Charges

Schedules: None

Chapter 13: Mitigation

Schedules: 13-1: Description of Mitigation Plan

Chapter 14: Comparators and Cohorts

Schedules: None

Chapter 15: Service Quality Regulation

Schedules: 15-1: Service Quality and Reliability Performance 2002 to 2004

Chapter 3

3 Test Year and Adjustments

3.0 Introduction

The methodology for the determination of rates in the 2006 Handbook is based upon the principle of building rates from costs, using a test year derived from the applicant's 2004 (historical) trial balance. The applicant may file on the basis of either a 2004 historical test year with no adjustments, or a 2004 historical test year subject to the adjustments specified in this chapter.

Applicants not wishing to file on an adjusted historical test year basis may file on a "forward" test year basis, with full supporting documentation.

An applicant must file on the basis of a forward test year if it wishes to make any adjustments to its application beyond those outlined in the Tier 1 and Tier 2 categories in this chapter.

Where any restatements and/or changes in accounting policy have occurred which affect opening 2004 balances, the data filed in the application is to be based upon the audited financial statements, incorporating only those changes that the applicant's auditor has accepted.

3.1 Historical Test Year versus Future Test Year

The applicant may choose from four filing options:

Option 1: 2004 year with **no** adjustments.

Option 2: 2004 year with all applicable Tier 1 adjustments.

Option 3: 2004 year with all applicable Tier 1 adjustments, and Tier 2 adjustments, if the applicant meets the criteria specified for hardship.

Option 4: Forward test year with full supporting documentation commensurate with the nature of the application.

The guidelines provided in the 2006 Handbook relate to historical test year filings as outlined in Options 1, 2 and 3 above.

An applicant filing a forward test year application will also be expected to provide all information that is required in the 2006 EDR Model. Information that is not specifically relevant to its application (e.g. Tier 1 and Tier 2 adjustments) does not have to be filed.

Whichever option the applicant chooses, three years of historical supporting data - 2002, 2003 and 2004 - must be included with the application, as required in the 2006 EDR Model.

3.2 Tier 1 Adjustments

Tier 1 adjustments serve two purposes:

1. To move the 2004 year-end closer to a "typical" year of capital investments, operations, and revenues by removing the effects of non-routine, unusual events applying to 2004 only. The nature of these adjustments, and the process for making them, is detailed below.

2. To allow for the limited subsequent year adjustments specified in the following table **only**. Applicants wishing to make any other post-2004 adjustments will be required to file on a forward test year basis.

An applicant that chooses to make any Tier 1 adjustment in its filing must make **all** Tier 1 adjustments that apply to the applicant's situation. An applicant cannot pick and choose among Tier 1 adjustments.

Tier 1 adjustments are to be made in the form of debits or credits to the relevant 2004 year-end balance (i.e. distribution expense, rate base, or revenue). They should be entered into the relevant schedules of the 2006 EDR Model.

The Tier 1 adjustments to distribution expenses and to rate base are summarized in the following table, and subsequently discussed in more detail.

Tier 1 revenue adjustments may also be required. These are described in Chapter 8.

Distribution Expenses	Rate Base
OEB annual assessment and other fees paid to energy regulators – adjust to 2005 actual	
Pensions – adjust to 2005 actual	
Insurance – adjust to 2005 actual	
	New transformer stations and directly-associated assets (e.g. feeders) with an in-service date of 2005
	Wholesale meters – adjust to 2005 actual
LV/Wheeling adjustments	
CDM adjustments	CDM adjustments
Smart Meters adjustments	Smart Meters adjustments
	Retirements without replacement in 2005- both rate base and income statement (depreciation) - when net book value exceeds 0.2% of net fixed assets
Non-routine/unusual for 2004 only and exceeding materiality threshold of 0.2% of total distribution expenses before PILs	Non-routine/unusual for 2004 only and exceeding materiality threshold of 0.2% of net fixed assets before adjustments

3.2.1 Tier 1 Adjustments: Distribution Expenses

OEB annual assessment and other fees paid to energy regulators

The applicant must adjust the 2004 base for the 2005 actual on Schedule 3-1. If the applicant is adjusting for energy regulator fees other than the OEB annual assessment, it must provide a breakdown of the total proposed adjustment and any necessary explanations.

Pensions

The applicant must adjust the 2004 base for the 2005 actual on Schedule 3-1.

Insurance

The applicant must adjust the 2004 base for the 2005 actual on Schedule 3-1.

Low voltage/wheeling adjustments

Low voltage/wheeling costs eligible for recovery through the 2006 distribution rate application process would be only those outlined below. The recovery of any other LV/wheeling charges is outside the scope of the 2006 distribution rate application process.

A. *Non-Hydro One Wheeling Charges*

Non-Hydro One wheeling charges may be recovered through Tier 1 adjustments by either the host, or the embedded distributor if: (i) such charges are not included in the filed 2004 unadjusted test year; and (ii) the host distributor's rate has been approved by the Board prior to the EDR 2006 application date. In the event that the embedded distributor has not received Board approval for a rate to recover these costs from its customers prior to the application date, it may apply as part of this proceeding for approval of such a rate.

No adjustments would be required for charges that were approved by the Board prior to December 31, 2004, unless the relevant costs were not included in the 2004 test year, or the existing rate schedule, in which case an applicant making such adjustments should provide a full explanation as to why they are necessary.

An applicants making Tier 1 LV expense adjustments is required to provide information as to the amount of the costs that are being recovered, or proposed for recovery and, if applicable, the rate that is being used, or proposed to be used, to recover them. An applicant should also make all other relevant adjustments as outlined in Chapters 8 and 9 of the Handbook.

B. *Hydro One LV Charges – Account 1508 – January 2004 to May 2006*

The Board will shortly issue a guideline which addresses the filing requirements and procedures for these amounts.

C. *Post May 2006 Hydro One LV Charges*

Hydro One will be allowed to apply to recover LV costs from embedded distributors in the post May 2006 period as part of the 2006 distribution rate setting process, and embedded distributors will, in turn, be allowed to apply to recover such costs from their customers.

An embedded distributor may apply for recovery of post May 2006 Hydro One LV charges through an adjustment to be calculated based on the currently approved LV charges as applied to the embedded distributor's 2004 consumption levels. The amount proposed for recovery by an embedded distributor should be entered as a Tier 1 expense adjustment with relevant calculations provided. An applicant should also enter any other relevant information or adjustments that it believes are required by other chapters of the Handbook.

CDM adjustments

There are two levels of CDM adjustments required in this section. The first would be for CDM expenditures already approved under the RP-2004-0203 third tranche spending commitment and the second for incremental CDM expenditures proposed for approval in the 2006 EDR process.

Third tranche non-capital distribution expenses have already been recovered and may not be recovered again. Accordingly, a Tier 1 adjustment is required to remove any relevant non-capital CDM expenditures that are already in the 2004 base rates; specifically those incurred related to the third tranche recovery for the period July 1, 2004 to December 31, 2004.

A distributor may apply in the 2006 rate application for approval of spending incremental to the third tranche amounts. The amount of distribution expenses proposed in the application must be included as a Tier 1 adjustment and details provided in Schedule 3-4. These adjustments must relate only to expenditures to be made in the 2006 rate year.

Smart Meters adjustments

The applicant should provide, in Schedule 3-1, details and justification for any incremental non-capital expenditures related to smart meters for which it is seeking recovery in the 2006 rate application.

Non-routine/unusual adjustments

These would be of the kind discussed in more detail below, applicable to 2004 only, and each potential adjustment exceeding a materiality threshold of 0.2% of total distribution expenses before PILs and adjustments. An applicant must disclose and justify these adjustments in Schedule 3-2.

3.2.2 Tier 1 Adjustments: Rate Base

An applicant making Tier 1 adjustments to rate base will also be required to enter the depreciation impact of the additions or subtractions to the rate base resulting from these adjustments. The additions or subtractions should be presumed to occur mid year. An applicant should enter such adjustments into the model and provide a full explanation as to the how the adjustments were calculated in Schedule 3-1.

New transformer stations

If the applicant anticipates that any new transformer stations and directly-associated assets (e.g. feeders) will come on line with an in-service date of 2005, the rate base is to be adjusted to include such additions.

A distributor wishing to have any transformation-related assets included in the distribution rate base which would not be included in the definition of the distribution rate base, as specified in Appendix A (e.g. Account 1815 Transformer Station Equipment – normally primary above 50kV), should request in its application that the Board, in its decision on the application, deem such assets to be distribution assets. Such a request may be made in the summary of the application.

Retirements without replacement

If the applicant anticipates that an asset will be retired without replacement in 2005, the rate base is to be adjusted to take such retirements into account, when the net book value of the retirement exceeds 0.2% of net fixed assets before adjustments.

Wholesale Meters

The applicant should include its 2005 projected estimates for wholesale meters.

CDM adjustments

There are two levels of CDM adjustments required in this section. The first would be for CDM expenditures already approved under the RP-2004-0203 third tranche spending commitment, and the second for incremental CDM expenditures proposed for approval in the 2006 EDR process.

Third tranche capital expenditures may be included in the rate base by making a Tier 1 adjustment. This adjustment would reflect any relevant capital expenditures not already included in the 2004 rate base, including appropriate depreciation, and would represent third tranche expenditures in the period January 1, 2005 to September 30, 2007. An explanation as to how the adjustments were calculated should be provided in Schedule 3-4.

A distributor may apply for approval of spending incremental to the third tranche amounts in the 2006 rate application. The amount of capital expenditures proposed in the application should be included as a Tier 1 adjustment and details provided in Schedule 3-4. These adjustments should relate only to capital expenditures to be made in the 2006 rate year.

Smart Meters adjustments

The applicant should provide in Schedule 3-1 details and justification for any incremental capital expenditures related to smart meters for which it is seeking recovery in this proceeding.

Non-routine/unusual adjustments

These adjustments would be of the kind discussed in more detail below, applicable to 2004 only, and exceeding a materiality threshold of 0.2% of net fixed assets before adjustments.

3.2.3 Non-routine/unusual Tier 1 Adjustments

The purpose of Tier 1 adjustments is to move the 2004 results closer to a typical year of capital investments, operations, and revenues, to the extent possible.

The application review process will include a review of the prudence of the submitted 2004 numbers to assess their validity as a basis for 2006 rate-setting. Accordingly, any applicant that chooses to make Tier 1 adjustments should ensure that any material non-routine or unusual events that occurred in 2004 are adjusted for, using the non-routine and unusual adjustment mechanism.

A non-routine/unusual adjustment is defined as a readily-known, identifiable, quantifiable and verifiable occurrence taking place in 2004 only, which exceeds the materiality threshold defined in the relevant sections of the 2006 Handbook. For an applicant making any Tier 1 adjustments, it is **mandatory** for the applicant to identify non-routine/unusual occurrences and to make the appropriate adjustment.

Schedule 3-2 should be completed for all such adjustments.

Some examples would include the following:

- bad debt write-off associated with bankruptcy or equivalent of a major customer;
- natural disaster impacts (e.g. ice storm); and,
- mergers and associated costs.

Mergers and acquisitions taking place after 2004 are to be dealt with outside of the 2006 rate-setting process and are not discussed in the 2006 Handbook.

If an applicant determines that an event which may appear to be non-routine or unusual should not be the subject of such an adjustment, the applicant should provide a full explanation in Schedule 3-2 as to why this is the case. For example, a significant increase in an expense item in 2004, which is expected to be sustained in subsequent years might not require an adjustment. The explanation should contain the same level of detail as for those non-routine events for which an adjustment is being sought.

If no non-routine events occurred in 2004, Schedule 3-2 should be filed, but contain only a statement to that effect.

Illustrative Example of a Non-routine/unusual adjustment

In 2004, a distributor experienced a record-setting "storm of the century" which did considerable damage to its network, but which is unlikely to be repeated in the immediate future.

As a result, the distributor's 2004 results show additional costs related to this storm that are not typical of the costs the distributor is likely to incur in 2006. The distributor should remove such costs through the non-routine/unusual adjustments mechanism.

For instance, assume the distributor identifies $50,000 of incremental cost relating to the storm in Account 5020 Overhead Distribution Lines and Feeders – Operations Labour. This cost should be removed by making a Tier 1 adjustment to the amount of $50,000 on the relevant line of the 2006 EDR model, provided that the cost exceeds the materiality threshold.

3.3 Tier 2 Adjustments

In addition to the Tier 1 adjustments outlined above, an applicant may also choose to apply for Tier 2 adjustments, which are optional. The purpose of Tier 2 adjustments is to restore both capital investments not made and distribution expenses not incurred due to one or both of the following circumstances:

- The applicant began the 1999 RUD process with negative returns.
- The applicant did not receive the second third of the market-adjusted revenue requirement increment.

Unless the applicant meets one or both of the above criteria, the applicant is **not** eligible for Tier 2 adjustments. Even if the applicant is eligible for Tier 2 adjustments, however, it is the applicant's option as to whether or not it chooses to apply for them.

Tier 2 adjustments are not an entitlement. They represent the amount of distribution expenses and capital expenditures that the applicant believes it was not able to spend because of the above circumstances, but now wishes to spend.

In order for the Board to approve proposed Tier 2 adjustments, the applicant must do the following:

- demonstrate that it has suffered hardship as a result of one or both of the circumstances outlined above;
- demonstrate that the proposed incremental distribution expenses and capital spending levels are justified by the hardship it has experienced, including how the applicant determined that these amounts are attributable to the two circumstances outlined above; and
- provide details on the activities that will be undertaken if the proposed incremental spending is approved, including specific details as to the nature of the envisaged activities and their timing on a quarterly basis.

Tier 2 adjustments will have two components: adjustments to distribution expenses and adjustments to the rate base in order to achieve sustainable levels of expenses and capital on a going-forward basis.

Tier 2 adjustments may also include additional requests for hardship funding, which would be intended to address an identified material degradation of the distribution system resulting from the existence of one or both of the Tier 2 qualifying circumstances, as opposed to a normal **on-going** level of expense and investment. These are additional distribution expenses and capital expenditures related to prior years which the applicant believes are necessary to make up for monies not spent in such prior years due to inadequate revenue as a result of the two circumstances outlined above. Any such amounts approved by the Board will be recovered with a rate rider to be in place for the period over which the corrective investments are to be undertaken.

An applicant wishing to make Tier 2 adjustments should complete Schedule 3-3.

Board approval of proposed Tier 2 adjustments, or of any portion thereof, will be subject to monitoring requirements. These requirements will include the filing of quarterly reports with the Board during the period of the approved expenditures, confirming that they have taken place as stated in the applicant's filing, or if not, providing an explanation for the variance and the applicant's revised plans.

The Board will establish a variance account to capture the difference between Tier 2 funding allowed in the revenue requirement, including interest, and actual spending, to ensure that the applicant's rates are adjusted appropriately at the time of its next planned rate adjustment.

Schedule 3-1: Tier 1 Adjustments

This form is to be used for all Tier 1 adjustments, except for non-routine/unusual and CDM adjustments, for which Schedules 3-2 and 3-4 should be used.

1. Standard Distribution Expense Adjustments

This table must be completed for the three standard distribution expense adjustments, outlined below:

	2005 Actual (1)	**2004 Actual (2)**	**Adjustment (3) (1) – (2)**
OEB Annual Assessment and Other Fees Paid to Energy Regulators*			
Pensions			
Insurance			

* An applicant must provide a breakdown of costs being claimed, if it includes cost recoveries other than OEB annual assessments

An applicant must ensure that relevant information, sufficient to allow all parties to the proceeding to have a full understanding of the adjustments, is included in the summary of the application.

2. Other Standard Distribution Expense and Rate Base Adjustments

State any adjustments that have been made for the following items in the sections below, and provide a full explanation for them.

Specify to which areas adjustments have been made (i.e. rate base, expenses). For rate base adjustments, also provide an explanation of the relevant depreciation adjustments.

If no adjustments have been made, explain why.

- Low voltage/wheeling adjustments
- Smart Meter initiatives
- new transformer stations with a 2005 in-service date
- wholesale meters to the 2005 actuals
- retirements without replacement

Schedule 3-2: Tier 1 Non-routine/unusual Adjustments

This form is to be used for Tier 1 Adjustments that are non-routine/unusual adjustments.

If the applicant is not making any such adjustments, a statement to that effect should be made in this Schedule.

Non-routine/unusual Adjustments

1. Provide a detailed explanation of the nature of the adjustment that is being made.

   Specify to which of rate base or distribution expenses it applies. For any rate base adjustments, also provide and explain the relevant depreciation adjustments.

   Include a detailed breakdown of the amounts of the adjustments made.

2. State why the applicant believes the adjustment is appropriate.

3. The materiality thresholds for an adjustment of this kind have been established as 0.2% of the following amounts:

   - for distribution expenses: total distribution expenses before PILs and adjustments
   - for rate base: net fixed assets before adjustments

   Confirm that the any proposed adjustment exceeds the relevant materiality threshold.

4. Specify any 2004 events that may appear to be non-routine or unusual, but which the applicant has determined should not be the subject of such an adjustment (e.g. a significant increase in an expense item in 2004 that is expected to be sustained in subsequent years) and provide a full explanation as to why the applicant believes this to be the case. The explanation must contain the same level of detail as for those non-routine events for which an adjustment is being sought.

Schedule 3-3: Tier 2 Adjustments

> Board approval of proposed Tier 2 adjustments, or of any portion thereof, will be subject to monitoring requirements. These requirements will include the filing of quarterly reports with the Board during the period of the approved expenditures, confirming that they have take place as stated in the applicant's filing, or if not, providing an explanation and the applicant's revised plans.
>
> The Board will establish a variance account to capture the difference between Tier 2 funding allowed in the revenue requirement, including interest, and actual spending, to ensure that the applicant's rates are adjusted appropriately at the time of its next planned rate adjustment.

Tier 2 adjustments are optional, but cannot be made unless all applicable Tier 1 adjustments are also made. To be eligible for Tier 2 adjustments, the applicant must have experienced one or both of the following circumstances:

- The applicant began the 1999 RUD process with negative returns.
- The applicant did not receive the second third of the market-adjusted revenue requirement increment.

Requirements:

1. Confirm that the additional capital expenditures or distribution expenses proposed had to be postponed due to one or both of the two circumstances outlined for Tier 2 adjustments, and not for other reasons. If only one of the circumstances is applicable, state which one.

2. State how the total amount being claimed is justified by the two circumstances outlined above (e.g. the amount of lost revenue that can be attributed to one or both of the above circumstances).

3. Provide the total dollar amount, per annum, of the impact on distribution expenses and capital of any proposed adjustment, an explanation as to how the breakdown between these two amounts was determined, and why the resulting amounts are appropriate. For any capital adjustments, also provide and explain the relevant depreciation adjustments.

   Provide, on a going-forward basis, breakdowns of the amounts proposed to be spent by USoA account, and information as to the specific projects to which they relate.

   Provide this information in the following format, with the proposed timing specified on a quarterly basis:

   - capital program adjustment requested in dollars, if any
   - expense impacts adjustment in dollars, if any

- other impacts of proposed adjustment in dollars, if any

Include a detailed explanation of the nature of the projects and the estimated timing.

If making additional hardship funding requests, provide the total dollar amount that is being requested, the prior years to which they relate, a per annum historical breakdown of the impact on distribution expenses and capital, and an explanation as to how the breakdown between these two amounts was determined and why it is appropriate.

Break down these amounts to specify in which of the prior years they would have been incurred, including identification of areas of under-spending by USoA account and information as to the specific projects to which they relate.

Provide, on a going-forward basis, breakdowns of the amounts proposed to be spent by USoA account, and information as to the specific projects to which they relate.

Provide this information in the following format, with the proposed timing specified on a quarterly basis:

- capital program adjustment requested in dollars, if any
- expense impacts adjustment in dollars, if any
- other impacts of proposed adjustment in dollars, if any

Include a detailed explanation of the nature of the projects and the estimated timing.

Schedule 3-4: Conservation and Demand Management adjustments

If an applicant is seeking approval of CDM spending in 2006 that is incremental to funding previously approved by the Board, the following information must be provided.

1. Characteristics of the applicant's distribution system, including:
    - Peak system load by season;
    - Average seasonal daily and weekly system load shapes;
    - Total energy purchases;
    - Sales by rate class; and
    - Number of customers by rate class.

2. For each initiative where costs are claimed in 2006, the following information must be provided:

    - General description;
    - Customer class(es) targeted;
    - Projected incremental demand (kW) or energy (kWh) savings;
    - Projected budget, listing:
        - capital expenditures in 2006;
        - operating expenditures for 2006, separated in to direct and indirect expenditures; and
        - for each direct operating expenditure, an allocation of the expenditure by targeted customer classes;
    - The input assumptions underlying the forecasted savings and costs; and
    - The cost / benefit analysis, calculating the net present value of the initiative using the Total Resource Cost test. For the purpose of calculating the net present value, distributors must use a discount rate equal to the incremental after-tax cost of capital, based on the prospective capital mix, debt and preference share cost rates, and the latest approved rate of return on common equity.

A distributor will be required to report annually on the results of each initiative for which spending is approved.

There is no provision for lost revenue adjustment or shareholder incentive in 2006 rates. However, the applicant should indicate in this schedule whether it anticipates a future claim related to the CDM plan for which it is seeking approval of spending in 2006.

The Conservation Manual, shortly to be issued by the Board, will provide detailed guidance on the filing requirements for seeking approval of expenditures and annual reports.

If an applicant is including as a Tier 1 adjustment any rate base related expenditures for third tranche CDM spending, an explanation of the calculation of the adjustment must be provided in this Schedule. An adjustment should be made only if the amounts being claimed are not already included in the 2004 costs.

Chapter 4

4 Rate Base

4.0 Definition of Rate Base

An applicant must file rate base information for the years 2002, 2003 and 2004.

The applicant is required to file information on its 2004 total assets, broken down into distribution and non-distribution segments. The level of detail in this filing will be as outlined in Appendix A and in the 2006 EDR Model.

Distribution assets are those associated with activities that enable the conveyance of electricity for distribution purposes. Such activities include operation and maintenance of the distribution system, meter reading services, billing and collection services, and others.

Non-distribution assets are those associated with activities not falling within the above definition of distribution activities, including street lighting services, renting and selling of hot water heaters, electricity transmission, and others.

Appendix A provides more detailed information on distribution and non-distribution assets, and how non-distribution assets should be identified and removed from the rate base. The nature of any such removals should be specified. The 2006 EDR Model provides the details of these filing requirements.

A distributor wishing to have any assets included in the distribution rate base that would not be included in the definition of the distribution rate base, as specified in Appendix A (e.g. Account 1815 Transformer Station Equipment – normally primary above 50 kV), should request in the summary of the application that the Board, in its decision on the application, deem such assets to be distribution assets.

The rate base used to determine the revenue requirement is defined as net fixed assets calculated as an average of the balances at the beginning and the end of 2004, plus a working capital allowance, which is 15% of the sum of the cost of power and controllable expenses. Controllable expenses are defined as the sum of operations and maintenance, billing and collection, and administration expenses. (See Appendix A for additional details.)

2004 net fixed assets, with the adjustments outlined in Chapter 3, will include the following items:

- amounts paid to other distributors or transmitters for capital projects, including contributions made to Hydro One for transmission upgrades (a list of the recipients and the amounts of these capital contributions should be included in the summary of the application)
- wholesale metering upgrade costs to be included in metering assets
- interval meters
- shared assets for which the distributor pays
- capital expenditures for Smart Meters and CDM projects

All revenue generated by joint use assets included in rate base should be included when determining the revenue sufficiency or deficiency.

Assets leased under capital leases are to be included in the rate base if they meet the Canadian GAAP standards for classification as a capital lease.

As outlined in Chapter 3, the applicant may file on the basis of an unadjusted 2004 test year, a 2004 test year with Tier 1 adjustments, or, if it meets the specified criteria, a 2004 test year with both Tier 1 and Tier 2 adjustments. The filed rate base number, therefore, would be the base number from the 2004 trial balance, plus the applicable adjustments outlined in Chapter 3.

4.1 Amortization Rates

The amortization rates outlined in Appendix B, Amortization Rates, are to be used for the purposes of the 2006 filings. An applicant that does not use the amortization rates listed in Appendix B must justify this departure and file the amortization schedules it proposes to use. The amortization study which supports these alternative rates must also be filed.

4.2 Capital Investments

An applicant should complete Schedule 4-1, Capital Expenditures, which provides details on its 2004 capital investment programs.

The materiality threshold for all capital investments is specified in the table below:

Rate Base	***Materiality Threshold ($ Value)***	***Materiality Threshold (% of Fixed Assets)***
under $100 million	*75,000*	*0.2% of net fixed assets as defined for rate base*

Rate Base	***Materiality Threshold ($ Value)***	***Materiality Threshold (% of Fixed Assets)***
$100 million - $250 million	*150,000*	*0.2% of net fixed assets as defined for rate base*
$250 million - $1 billion	*300,000*	*0.2% of net fixed assets as defined for rate base*
greater than $1 billion	*500,000*	*0.2% of net fixed assets as defined for rate base*

The applicant should calculate each of the materiality thresholds applicable to its particular circumstances and use the lower of the two thresholds to determine its own applicable level of materiality.

4.3 Interest on Deferral Accounts and Construction Work in Progress (CWIP)

Generally, the interest rate to be used for deferral accounts is established by the Board at the time the deferral account is established.

The interest rate to be used for construction work in progress (CWIP) is the Allowance for Funds Used During Construction (AFUDC).

4.4 Capitalization Policy

The applicant's capitalization policy should be outlined in the summary of the application and be filed with the application, if such a document exists. If no policy exists, that fact should be explicitly stated.

4.5 Contributed Capital

Contributed capital collected by the distributors on or after January 1, 2000 is not to be included in rate base. No return is earned on contributed capital collected on or after January 1, 2000, and the associated amortization expense is not charged to operating expenses.

Historical contributed capital included in rate base under the Ontario Hydro regulatory regime will remain in rate base and earn a return until these assets are fully depreciated. The depreciation expenses associated with this historical contributed capital will be charged to operating expenses until the assets are fully depreciated.

4.6 Treatment of Capital Gains and Losses

4.6.1 Assets Sold to a Non-Affiliate

The treatment of capital gains and losses on non-depreciable assets sold to a non-affiliate will be determined by the Board on a case-by-case basis, subject to the materiality thresholds outlined in Section 4.2. A capital gain or loss that falls below the materiality threshold shall be shared between the ratepayers and the shareholders on a 50/50 basis in determining the revenue requirement.

4.6.2 Assets Sold to an Affiliate

The treatment of capital gains and losses on non-depreciable assets sold to an affiliate will be determined by the Board on a case-by-case basis, subject to the materiality thresholds outlined in Section 4.2. The materiality thresholds outlined in Section 4.2, however, will be applied to the value of the asset sold and not to the amount of the gain or loss on the sale. A capital gain or loss that falls below the materiality threshold shall be shared between the ratepayers and the shareholders on a 50/50 basis in determining the revenue requirement.

Schedule 4-1: Capital Expenditures

An applicant must file detailed information on its 2004 capital expenditures in the following format. For any projects exceeding the materiality threshold, a detailed summary of the project should be attached to this form, outlining key information about it. This would include its purpose, its cost, its timing, and other information that the applicant believes would be relevant to the Board and other interested parties.

Project	$(000) Amount	In-Service Date
Intangible Plant		
Distribution Plant		
• land and land rights		
• buildings, fixtures, and leasehold improvements		
• distribution equipment (specify)		
• meters		
General Plant		
• land and land rights		
• buildings, fixtures, and leasehold improvements		
• equipment (non-IT)		
• IT equipment		
○ billing systems		
○ SCADA systems		
○ GIS/CIS systems		
○ hardware/software		
○ other		
• load management controls		
• other (specify)		
Other Capital Assets		
• property under capital leases		
• electric plant purchased or sold		
• other (specify)		
Total Capital Expenditures		

Chapter 5

5 Cost of Capital

5.0 Introduction

Cost of capital refers to the costs incurred by a distributor in order to finance its operations, either by attracting and retaining investment from shareholders or by raising debt.

There are three main components to the cost of capital, expressed in dollars or as a percentage:

- return on equity (ROE): the return that shareholders should have the opportunity to earn, assuming operations are normal and managed prudently, and considering the risk of the market, firm, or sector
- debt rate (DR): the cost of financing long-term debt, taking into account interest rates and the risk of the market, firm, or sector
- debt ratio (D): the percentage of the distributor's financial structure that is financed through debt, the remainder being financed through equity.

There is no distinction between common shares and preferred shares in a distributor's equity.

Currently, short-term debt is ignored in the calculation of cost of capital. Applicable cost rates relating to the carrying costs of construction work in progress, amounts in deferral accounts, and certain defined regulatory assets are dealt with elsewhere in this Handbook.

The cost of capital is the weighted average percentage of the return on equity percentage and the debt rate percentage, as demonstrated in the following equation, where D is debt ratio, the percentage of the rate base that is (deemed) to be financed through debt; DR is debt rate; and ROE is return on equity:

$$\mathit{Cost\ of\ Capital} = D \times DR + (1 - D) \times ROE$$

The Board has approved the use of a mechanistic update consistent with the methodology used by Dr. Cannon in his 1998 paper "A Discussion Paper on the Determination of Return on Equity and Return on Rate Base for Electricity Distribution Utilities," for both maximum allowed return on equity and debt rates for 2006 rate applications.

The debt rate and the maximum allowed return on equity are updated for 2006 to reflect the forecast for the long-run (30-year) Government of Canada bond yield.

The equity risk premium is held at 3.80% (380 basis points).

There is no change in the structure of the size-related debt rate, other than the update for the current Long Canada Bond yield. The deemed debt/equity structure is also unchanged from what was used for the calculation of unbundled electricity distribution rates, from 2001 to the present.

5.1 Maximum allowed return on equity

The maximum allowed return on equity, based upon April 2005 data, is the sum of the following numbers:

Average of 3- and 12-month *Consensus Forecasts* outlook for 10-year Government of Canada bond rates	4.75%
Average difference during April 2005 between 10- and 30-year Government of Canada bond yields (Source: Bank of Canada)	0.45%
Equity risk premium	3.80%
Maximum allowed return on equity	**9.00%**

A distributor may elect a return on equity less than the maximum allowed. The distributor should state the return on equity it is seeking in the summary of the application.

5.2 Debt Rate

Like the ROE, the debt rate (DR) is based upon the forecast of the Long Canada Bond Rate, and is determined by the Board using the most current data available at the time of issuance of the 2006 Distribution Rate Handbook. Added to this rate is a premium commanded by financial lenders for long term debt issued by a low risk utility of 0.6%. Finally, a size related premium is added on a sliding scale for distributors with a rate base of $1.0 billion or less.

The results are shown in table 5.1.

Table 5.1 Size-Related Debt Formula

Rate Base	Deemed Capital Structure		Deemed Debt Rate (DR)
	Debt (D)	Equity (1-D)	
> $1.0 billion	65%	35%	5.8%
$250 million - $1.0 billion	60%	40%	5.9%
$100 million - $250 million	55%	45%	6.0%
< $100 million	50%	50%	6.25%

The 2006 EDR Model will determine and use the deemed debt rate based upon the distributor's rate base.

Weighted average debt rate

The debt rate used to calculate the cost of capital will depend upon the distributor's cost of actual debt and whether that debt is held by a third party or by an affiliated firm.

For debt held by a third party, the actual debt rate for that debt is used. For debt held by an affiliate (e.g. municipal shareholder, holding company), the debt rate used is the lower of the actual debt rate and the deemed debt rate at the time of issuance. The debt rate should include all costs of issuance.

For debt issued between March of 2000 and May 12, 2005, the deemed debt rate is that shown in Table 3-1 of the first generation PBR Distribution Rate Handbook (released in March, 2000), given the distributor's size. The updated deemed debt rates shown in Table 5.1 if this 2006 Handbook are used for debt issued on May 13, 2005 or later. For debt issued before March, 2000, the actual debt rate is used. The applicant may have to demonstrate that the debt rate was at or below then current market rates.

The applicant should complete Schedule 5-1 to determine the weighted average debt rate.

5.3 *Capital Structure*

An applicant will use the deemed debt/equity structure shown in Table 5.1 corresponding to the size of the its rate base, to establish the revenue requirement for 2006 distribution rates. There is no adjustment for short-term debt and no distinction is made between common and preferred shares.

In Schedule 5-2, a distributor is required to document its actual capital structure for 2004 based upon shareholders' equity, preferred shares, and debt. These numbers are typically taken or derived from the distributor's 2004 audited financial statements or similar records.

Where the actual debt/equity structure deviates from the deemed debt/equity structure corresponding to the distributor's size, by more than ten percentage points, the applicant must also provide in its summary of the application an explanation as to why the actual debt/equity structure is different.

5.4 *Working Capital Allowance*

Working capital allowance (WCA) represents the estimated cash flow required by the distributor to be paid in advance of recovery. It is to be included in the calculation of the rate base upon which the distributor may earn a return.

For 2006 rates, the allowance is calculated at 15% of the distribution cost of power, and other power supply expenses and controllable expenses. The general ledger accounts to be included in the working capital allowance are set out in Appendix A.

For 2006 rates, the working capital allowance is calculated by the 2006 EDR Model as follows:

[COP + 2004 Distribution Expenses with Adjustments (excluding depreciation and PILs/taxes)] * 15%

The Cost of Power used in the WCA is the 2004 Cost of Power adjusted by the average annual demand for the years 2002 to 2004 inclusive per the following calculation:

$$\text{"}\mathit{Normalized}\text{"}\,2004\,\mathit{Cost\ of\ Power} = \frac{2004\,\mathit{Cost\ of\ Power}}{2004\,\mathit{Wholesale\ kWh}} \times \mathit{Average}(2002\ \mathit{to}\ 2004\,\mathit{Wholesale\ kWh})$$

2004 Distribution Expenses with Adjustments (excluding depreciation and PILs/taxes) will be derived from the tab in the Model: Distribution Expenses with Adjustments, and linked to COP and Controllable Expenses.

No adjustment for customer security deposits is made in the calculation of the WCA.

Schedule 5-1: Weighted Debt Cost

[This Schedule is incorporated into the actual 2006 EDR model under Tab 3-4]

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
No.	**Description**	**Debt Holder**	**Is Debt Holder Affiliated? (Y/N)**	**Date of Issuance**	**Principal**	**Term (Years)**	**Actual Rate**	**Debt rate used for weighted debt rate cost**
1								
2								
3								
4								
Total:								**SumProduct[(6),(9)]/Sum[(6)]**

In column (8), use the Deemed DR from the first-generation PBR Distribution Rates Handbook (see Table 3-1 of that Handbook) for historical debt for the period March 2000 to May 13, 2005, rather than the updated DR shown in Table 5.1 of the 2006 Handbook. For new debt issued as of May 13, 2005, the updated deemed debt rate in table 5.1 is used. For debt before 2000, the applicant may have to demonstrate that the debt rate was at, or below, market rates in effect at the time that the debt was issued. For debt held by an unaffiliated third party, use the actual debt rate.

Example of weighted average debt rate calculation

The distributor has a rate base of $125 million and a deemed rate of 6.61%. It has $25 million of debt with its municipal parent for 25 years issued at 6.75%; $20 million with the parent for 10 years issued at 6.45%; and $20 million of debt with an unaffiliated bank for 5 years issued at 6.9%. Both amounts issued to the parent were negotiated at the time when the Board's deemed rate was 6.75%.

The following table shows the calculation:

Weighted Debt Rate Calculation				
Organization Holding Debt	**Debt**	**Actual Debt Rate**	**Debt Rate Used (DR)**	**Reason**
Parent	$25 million	6.75%	6.75%	Debt issued to affiliate at time when Board's deemed rate was 6.75%: use lesser min (6.75%, actual)
Parent	$20 million	6.45%	6.45%	Affiliated: use min (6.75%, actual)
Bank	$20 million	6.90%	6.90%	Unaffiliated: use actual
Total:	$65 million	**Weighted Average:**	6.70%	

In this example, the weighted cost of debt used for calculating the cost of capital is 6.70%.

Schedule 5-2: Actual Capital Structure of the Distributor

This Schedule is incorporated into the 2006 EDR model under Tab 3-3 Capital Structure

Line			**($000)**	**(%)**	**Deemed Structure**	**Cost Rate**
(1)	Long Term Debt					
(2)	Unfunded Short Term Debt					
(3)	Total Debt	(3) = (1) + (2)				
(4)	Preferred Shares					
(5)	Common Equity					
(6)	Total Equity	(6) = (4) + (5)				
(7)	Total	(7) = (3) + (6)				

Explanation

Where the distributor's actual capital structure deviates from the applicable deemed capital structure (Table 5.1) by more than ten percentage points, the distributor must provide in the summary of its application, a description of why this deviation exists, and why the distributor feels that its actual capital structure is appropriate (e.g., what circumstances, such as growth, have been factors, and whether or not the actual structure will result in increased cost of capital or financial risk). When Schedule 5-2 is filled out in the 2006 rate application model, a message will appear in the model when this situation occurs and the explanation is required.

Chapter 6

6 Distribution Expenses

6.0 Introduction

An applicant must file distribution expenses for the years 2002, 2003, and 2004. Significant variances in the level of expenses between years should be explained in the summary of the application. Circumstances that may affect the comparability of any of the three years of cost data filed, such as a change in accounting policies, should also be explained in the summary.

Distribution expense data are to be entered into the EDR 2006 Model. The model will aggregate the data to the level required by the Board, which is outlined in Appendix A.

Guidelines and requirements for supporting documentation for Tier 1 and Tier 2 adjustments to 2004 historical test year distribution expenses are outlined in Chapter 3.

6.1 Definition of Distribution Expenses

Only distribution expenses will be allowed for the calculation of the applicant's 2006 revenue requirement. Distribution expenses are those expenses associated with activities that enable the conveyance of electricity for distribution purposes. Distribution expense data must be separated into distribution and non-distribution amounts as outlined in Appendix A.

6.2 Detailed Reporting for Specific Distribution Expenses

Review of the reasonableness of some specific distribution expenses requires disclosure of additional information. Detailed reporting requirements are outlined in the following sections. Portions of certain expenses may be deemed unrecoverable for the determination of 2006 revenue requirement. These particular treatments are also outlined below.

6.2.1 Insurance Expense

An applicant is to file insurance expenses recorded for the years 2002, 2003, and 2004 in Schedule 6-1.

For a distributor with third party insurance, insurance expenses will consist of premiums and adjustments, and the following additional data is required:

- number of insurers
- type of insurance purchased
- premium costs per type of insurance

For a distributor with self-insurance, insurance expenses will consist of self-funded claims and any changes in reserves recorded as expense. Where a distributor self-insures, information about the organization and the operation of the self-insurance plan must be provided in the summary of the application.

While actual expenses (defined as the average of actual claims for the period 2002 to 2004) for self-insured claims are allowable for calculation of the 2006 revenue requirement, any change in reserve(s) for self-insurance are not to be included in the 2006 revenue requirement.

6.2.2 Bad Debt Expense

The recovery of unusual 2004 bad debt expense is not permitted. The distributor must demonstrate that the level of bad debt recovery sought is not unusual by filing the following information in Schedule 6-2:

1. All bad debt expense as reported in Account 5335 for the years 2002, 2003, and 2004, is to be reported, segregated by customer class.

2. Disclosure of all individual material bad debt occurrences arising in 2004 and their impact on Account 5335.

   Disclosure should include the dollar value of the bad debt write off occurrence and a brief explanation of the circumstances.

   Materiality is defined as an amount exceeding 0.2% of the total 2004 distribution expenses before PILs. The applicable materiality value will be calculated automatically within the 2006 EDR Model.

6.2.3 Information Technology Expenses

There is no single APH account that tracks IT-related expenses. In the summary of the application, therefore, the applicant must include a description of its organization for IT services (including any outsourcing), and its methodology of recording IT expenses. For example, the applicant should disclose the extent to which some IT-related expenses are included in engineering or in billing expense.

6.2.4 Advertising, Political Contributions, Employee Dues, Charitable Donations, Meals/Travel and Business Entertainment, Research and Development

The 2006 EDR Model will include a column for the non-eligible portion of these expenses.

Advertising expenses

Advertising expenses incurred for the primary purpose of promoting corporate branding or image are not to be included in determining the applicant's 2006 revenue requirement. An applicant must review its 2004 expense data to identify, disclose, and remove such amounts as are non-recoverable.

Political contributions

Political contributions in the form of donations to political parties are not to be included in determining the applicant's 2006 revenue requirement. An applicants must review its 2004 expense data to identify, disclose, and remove such amounts as are non-recoverable.

Employee dues

Annual fees or dues for employee memberships in organizations that are recreational or social in nature are not to be included in determining the applicant's 2006 revenue requirement. Employee dues or fees related primarily to health and fitness are recoverable, provided that the same are generally available to all categories of employees. An applicant must review its 2004 expense data to identify, disclose, and remove such amounts as are non-recoverable.

Charitable contributions

An applicant is to file the amounts paid in charitable donations for the years 2002, 2003, and 2004. The recovery of charitable donations will not be allowed for the purpose of setting 2006 rates, except for contributions to programs that provide assistance to the distributor's customers in paying their electricity bills. An applicant wishing to recover contributions of this latter kind should provide detailed information on the basis for such claims in Schedule 6-3. An applicant must review its 2004 expense data to ensure that all other non-recoverable contributions are identified, disclosed and removed.

Meals/travel and business entertainment expenses

The applicant must indicate in the summary of the application whether or not it has a written policy, including any collective agreement(s) that sets out guidelines for management approval of meals, travel, and business entertainment expenses.

An applicant must confirm, also in the summary of the application, that internal measures exist to ensure that staff meals, travel, and entertainment-related expenses included in the filing were approved by the applicant's management, based upon a consistently applied corporate policy.

Any written policies of the applicant regarding employee expenses related to meals, travel and business entertainment must be filed with the application.

Research and development

Research and development expenditures intended to benefit the applicant's ratepayers will be included in the determination of the applicant's 2006 revenue requirement. The summary of the application should provide an explanation of the nature and amounts of such expenditures and how they will benefit the applicant's ratepayers.

6.2.5 Employee Total Compensation

An applicant must demonstrate that the total compensation paid to its employees, part of which may be capitalized rather than expensed, is reasonable for recovery in the calculation of 2006 revenue requirements.

Total compensation includes the following items:

- base salary or wages earned
- overtime premiums paid
- value of benefits received that are paid for by the employer
- performance incentive payments received

To review the reasonableness of the applicant's total compensation expense, information is required on the number of employees and compensation levels.

The applicant is to provide three years of historical data (2002, 2003 and 2004) for the following four broad categories of distributor employees and contract workers in Schedule 6-4:

- executive: CEO, COO, VP(s), General Manager(s), Director(s)
- management: operational, middle, and supervisory managers
- non-unionized: positions not included in union bargaining units that have no supervisory or management responsibilities
- unionized: positions that are part of a union bargaining unit

Where there are three, or fewer, full-time equivalents (FTEs) in any category, the applicant may aggregate this category with the category to which it is most closely related. This higher level of aggregation may be continued, if required, to ensure that no category contains three, or fewer, FTEs.

For an applicant with fewer than three employees, reporting of employee compensation under this section is not required.

Required Information Disclosure

The information to be disclosed in aggregate for each category of employees is as follows:

- average yearly wage
  - segregated into base wage and overtime
  - wage: all earnings, excluding incentives and benefits, which are to be reported separately, below
- average yearly incentive
  - incentive: those amounts paid on a corporate incentive or bonus plan
- average yearly benefits
  - benefits: those amounts the applicant deems as employee benefits related to compensation
- number of employees
- number of full-time equivalents (FTEs)

Incentive plans

Distributor incentive compensation plans reward employees for meeting specific performance targets. The targets can include performance which benefits ratepayers, or which benefits primarily the shareholder.

Incentive payments related to benefits to shareholders will not be recoverable in the 2006 revenue requirement. An applicant seeking to include expenses related to employee incentive plans should include only the costs of incentives that reward the creation of ratepayer benefits.

An applicant with incentive compensation plans must file the following information in Schedule 6-5:

- details of the incentive compensation plan(s)
    - a list of performance measurement criteria
    - identification of incentives that benefit ratepayers and shareholders, and an explanation for that characterization

- total annual dollar value of incentive compensation
    - breakdown the shareholder-related component and the ratepayer-related component separately

6.2.6 Pensions and Post-retirement Benefits

Pensions: OMERS members

An applicant whose employees are members of the Ontario Municipal Employees Retirement System (OMERS) pension plan must provide OMERS pension premiums and adjustments expense for the years 2002, 2003 and 2004 in Schedule 6-6.

Pensions: Non-OMERS members

A distributor whose employees are not members of OMERS may fund and administer its own pension plans and may recover pension expenses.

Such a distributor must provide the following information in Schedule 6-7.

- cash versus accrual valuation
- any "smoothing" methods employed, and their impact
- eligibility by employee groups
- summary of performance for each plan

Post-retirement benefits

Expenses recorded for these benefits will generally be allowed for recovery in the 2006 revenue requirement.

In 2000, the CICA (see Section 3461) recommended changing from the cash method to the accrual method of accounting for post-retirement employee benefits.

The applicant must provide more detailed information on post-retirement benefits in the pension schedule that applies to the applicant (6-6 OMERS, 6-7 Non-OMERS). In addition to expense information, the applicant must provide the following:

- current accounting treatment of post-retirement benefits
    - e.g. cash versus accrual
    - e.g. review period frequencies
- treatment of past changes in accounting policy regarding post-retirement benefits, and any related one-time expenses, including amortization policy
    - e.g. change from cash basis, to accrual basis
- treatment of changes in actuarial value in post-retirement benefits
- disclosure of any plans that do not follow the current CICA accounting rules for regulatory purposes and explanation for the alternative treatment

6.2.7 Distribution Expenses Paid to Affiliates

Affiliate transactions

Distribution expenses incurred through the purchase of services or products from affiliate companies ("affiliate transactions") must be documented and justified if they are to be recovered as part of the 2006 revenue requirement.

Where reported distribution expenses are incurred through affiliate transactions, the following information for the years 2002, 2003 and 2004 is to be included in Schedule 6-8:

- identity of each affiliate transacting with the applicant
- summary of the nature of the activity transacted with each affiliate
- annual dollar value, in aggregate, of transactions with each affiliate

- identify whether a market-based pricing or a cost-based pricing was used for each transaction

- description of specific methodology used in determining prices
    - e.g. summary of the tendering process, where market-based pricing was used
    - e.g. summary of the approach, where cost-based pricing was used

Shared services

Where distribution expenses are incurred through the sharing of services or resources with affiliates of the applicant, the following information is to be included in Schedule 6-9:

- types of services: finance, IT, office space, etc.
- total annual dollar value, by service
- rationale and summary of cost allocators used for shared costs, for each type of service (square footage, computers, headcount, etc.)

An applicant should review Accounting Procedures Handbook Article 340 and the Affiliate Relationships Code when justifying its expenses for shared services.

Outsourced distribution services

A distributor that has outsourced fifty percent or more of its distribution services, whether through affiliate transactions, shared services, or other means, must provide the following information in Schedule 6-10 for all such transactions that exceed a materiality threshold of 0.2% of distribution expenses:

- the amount of the transaction
- the amount of the costs of the transaction that are capitalized
- the trial balance account(s) into which the O&M costs of the transaction are recorded
- the trial balance account(s) into which the capital costs of the transaction are recorded

In addition, if the contract related to the transaction was awarded by tender, this should be stated in Schedule 6-10.

Schedule 6-1: Insurance Expense

An applicant must provide insurance expenses for the years 2002, 2003 and 2004 on this schedule.

For those a distributor with **third party insurance,** insurance expenses will consist of premiums and adjustments and the following additional data is required:

- number of insurers
- type of insurance purchased
- premium costs per type of insurance

For a distributor with **self-insurance,** insurance expenses will consist of self-funded claims and any changes in reserves recorded as expense.

Information about the organization and operation of the self-insurance plan must be provided on this schedule, or attached to it.

For self-insurance plans, actual expenses (defined as the average of actual claims for the period 2002 to 2004) for self-insured claims are allowable for calculation of the 2006 revenue requirement, but any change(s) in reserve(s) for self-insurance is (are) not to be included in the 2006 revenue requirement.

A distributor with self-insurance is responsible for providing all relevant information and calculations below, or attached to this form, to demonstrate its compliance with the above requirements.

An applicant must also make any necessary adjustments that are required to the 2006 model and provide their derivation on this schedule.

Schedule 6-2: Bad Debt Expense

An applicant should note that the recovery of unusual 2004 bad debt expense is not permitted. The distributor must demonstrate that the level of bad debt recovery sought is not unusual by filing the following information on this schedule:

1. All bad debt expense as reported in Account 5335 for the years 2002, 2003 and 2004, segregated by customer class.

2. All individual material bad debt occurrences arising in 2004 and their impact on Account 5335 must be disclosed. The dollar value of any such material bad debt occurrences and a brief explanation of the circumstances should be provided. Materiality is defined as an amount exceeding 0.2% of the total 2004 distribution expenses, as calculated by the model.

3. As outlined in Chapter 3, any unusual bad debt expenses incurred in 2004 should be removed from the 2006 revenue requirement through a Tier 1 non-routine/unusual adjustment.

Schedule 6-3: Charitable Donations

An applicant must provide all amounts paid in charitable contributions for the years 2002, 2003 and 2004 below, including a breakout of any contributions to programs that provide assistance to the distributor's customers in paying their electricity consumption bills.

An applicant wishing to recover such contributions must provide detailed information on the basis for such claims.

An applicant should state below, any necessary adjustments to its 2006 revenue requirement resulting from non-eligible charitable contributions and make the necessary adjustment to the model.

Schedule 6-4: Employee Compensation

Note: *For an applicant with fewer than three employees, reporting of employee compensation under this section is not required. In cases where there are three or fewer, full-time equivalents (FTEs) in any category, the applicant may aggregate this category with the category to which it is most closely related. This higher level of aggregation may be continued, if required, to ensure that no category contains three, or fewer, FTEs.*

All other applicants should complete the following tables, as outlined in Chapter 6:

Number of employees (Full-time equivalents (FTEs)):

	2002	2003	2004
Executive			
Management			
Non-unionized			
Unionized			

Compensation – Average Yearly Base Wage ($):

	2002	2003	2004
Executive			
Management			
Non-unionized			
Unionized			

Compensation – Average Yearly Overtime ($):

	2002	2003	2004
Executive			
Management			
Non-unionized			
Unionized			

Compensation – Average Yearly Incentive ($):

	2002	2003	2004
Executive			
Management			
Non-unionized			
Unionized			

Compensation – Average Yearly Benefits ($):

	2002	2003	2004
Executive			
Management			
Non-unionized			
Unionized			

Schedule 6-5: Employee Incentive Plan Expense

The questions below must be completed where a distributor has included in its application expenses in respect of any employee incentive plan.

1) Description

Provide a general description of each incentive compensation plan.

2) Performance Measures

List the specific performance measures for each type of employee incentive plan.

Identify whether the applicant considers each performance measure primarily to benefit shareholders or ratepayers. Where a measure is identified as providing a benefit to ratepayers, provide justification for this characterization.

3) Annual Cost(s)

List the total annual dollar amount of the incentive compensation paid under each plan, and provide a breakdown between the shareholder-related sub-component and the ratepayer-related sub-component.

Schedule 6-6: OMERS Pension Expense and Post-Retirement Benefits

An applicant whose employees are members of the Ontario Municipal Retirement System (OMERS) must provide the following information:

1. Pension

Pension	**2002**	**2003**	**2004**
Pension premiums			
Adjustments			
Less: amount capitalized			
Amount expensed in each year			

2. Post-retirement benefits expense

Post Retirement Benefits	**2002**	**2003**	**2004**
Post-Retirement Benefits Cost			
Adjustment			
Less: Amount capitalized			
Amount expensed in each year			

3. Post-retirement benefits accounting information

- current accounting treatment of post-retirement benefits
- treatment of past changes in accounting policy regarding post-retirement benefits, and any related one-time expenses, including amortization policy
- treatment of changes in actuarial value in post-retirement benefits
- disclosure of any plans that do not follow the current CICA accounting rules for regulatory purposes and explanation for the alternative treatment

Schedule 6-7: Non-OMERS Pension Expense and Post-Retirement Benefits

An applicant that has included in its application pension and post-retirement benefits expenses paid on behalf of any employees that are not members of the Ontario Municipal Employee Retirement System, including any distributor-owned and – administered pension plans, must provide the following information.

1. Pension

For the Year 2002

Plan	Employees	Performance	Valuation	Smoothing
Name non-OMERS Plan 1	Describe eligibility by employee groups.	Summarize annual performance for each plan.	Cash or accrual?	Describe any "smoothing" methods used.
Plan 2, etc.				

For the Year 2003

Plan	Employees	Performance	Valuation	Smoothing
Name non-OMERS Plan 1	Describe eligibility by employee groups.	Summarize annual performance for each plan.	Cash or accrual?	Describe any "smoothing" methods used.
Plan 2, etc.				

For the Year 2004

Plan	Employees	Performance	Valuation	Smoothing
Name non-OMERS Plan 1	Describe eligibility by employee groups.	Summarize annual performance for each plan.	Cash or accrual?	Describe any "smoothing" methods used.
Plan 2, etc.				

2. Post-retirement benefits expense:

Post Retirement Benefits	**2002**	**2003**	**2004**
Post-Retirement Benefits Cost			
Adjustment			
Less: Amount capitalized			
Amount expensed in each year			

3. Post-retirement benefits accounting information:

- current accounting treatment of post-retirement benefits
- treatment of past changes in accounting policy regarding post-retirement benefits, and any related one-time expenses, including amortization policy
- treatment of changes in actuarial value in post-retirement benefits
- disclosure of any plans that do not follow the current CICA accounting rules for regulatory purposes and explanation for the alternative treatment

Schedule 6-8: Distribution Expenses Paid to Affiliate(s)

The table and questions below must be completed where a distributor has included in its application distribution expenses paid to an affiliate(s).

For the Year 2002

Affiliate Names	Activity	Value	Basis Pricing
Affiliate X	Describe transaction(s) with Affiliate X.	List annual aggregate $ value of amounts paid to Affiliate X.	Did affiliate use market-based pricing or cost-based pricing?
Affiliate Y, etc.			

For the Year 2003

Affiliate Names	Activity	Value	Basis Pricing
Affiliate X	Describe transaction(s) with Affiliate X.	List annual aggregate $ value of amounts paid to Affiliate X.	Did affiliate use market-based pricing or cost-based pricing?
Affiliate Y, etc.			

For the Year 2004

Affiliate Names	Activity	Value	Basis Pricing
Affiliate X	Describe transaction(s) with Affiliate X.	List annual aggregate $ value of amounts paid to Affiliate X.	Did affiliate use market-based pricing or cost-based pricing?
Affiliate Y, etc.			

An applicant must provide a description of the specific methodology used to determine the price(s) paid to affiliate(s). Where market-based pricing was used, summarize the tendering process. Where cost-based pricing was used, summarize the approach followed.

Schedule 6-9: Distribution Expenses Incurred Through Sharing Services with Affiliate(s)

Minimum Filing Requirements

The table below must be completed where the applicant incurs distribution expenses through the sharing of services or resources with an affiliate(s).

For the Year 2002

Affiliate Name(s)	Activity	Value	Basis Allocation
List the shared service(s) provider: Affiliate X	Describe the service(s) or resource(s) provided by Affiliate X.	List annual $ value, by service	For each type of shared cost, provide a summary of the cost allocator(s) used, and the rationale.
Affiliate Y, etc.			

For the Year 2003

Affiliate Name(s)	Activity	Value	Basis Allocation
List the shared service(s) provider: Affiliate X	Describe the service(s) or resource(s) provided by Affiliate X.	List annual $ value, by service	For each type of shared cost, provide a summary of the cost allocator(s) used, and the rationale.
Affiliate Y, etc.			

For the Year 2004

Affiliate Name(s)	Activity	Value	Basis Allocation
List the shared service(s) provider: Affiliate X	Describe the service(s) or resource(s) provided by Affiliate X.	List annual $ value, by service	For each type of shared cost, provide a summary of the cost allocator(s) used, and the rationale.
Affiliate Y, etc.			

Schedule 6-10: Outsourced Distribution Services

A distributor that has outsourced fifty percent or more of its distribution services, whether through affiliate transactions, shared services or other means, must provide the following information for each transaction that exceeds a materiality threshold of 0.2% of distribution expenses:

- the amount of the transaction
- the amount of the costs of the transaction that are capitalized
- the trial balance account(s) into which the O&M costs of the transaction are recorded
- the trial balance account(s) into which the capital costs of the transaction are recorded

In addition, if the contract related to the transaction was awarded by tender, this should be stated.

Chapter 7

7 Taxes / PILs

7.0 Introduction

The 2006 OEB Tax Model and its principles will only be applicable to the 2006 rate year. The Board has not determined the process for the 2007 rate year, including whether or not the tax calculation will be revisited for that rate year.

The tax model has been designed for a distributor using a historical test year as the basis of its application. A distributor filing on an historical test year basis must use the 2006 OEB Tax Model. A distributor filing on a forward test year basis does not have to use the 2006 OEB Tax Model, but must file an equivalent level of detail. The principles set out below, however, remain applicable to all applicants.

7.1 General Methodology Underlying the 2006 Tax Calculation

Application of 2006 Handbook and 2006 OEB Tax Model

Most distributors will pay income and capital taxes in the form of proxy tax payments (PILs) to the Province under section 93 of the *Electricity Act*. A small number of distributors, however, may pay section 89 proxy taxes, or as taxable corporations be subject to normal provincial and federal taxation.

A distributor required to pay PILs under section 93 must complete the 2006 OEB Tax Model without amendments. Any distributor submitting its own tax filing calculation, eg. distributors filing a forward test year application, will, in that calculation, follow the same basic principles, methodology and level of detail outlined in the 2006 Handbook and set forth in the 2006 OEB Tax Model. Any variations from the 2006 OEB Tax Model must be identified and described in the summary of the application.

A distributor not required to pay PILs under section 93 shall do the following:

- in the summary of the application, describe the basis of its tax or PILs payments
- explain all variances between the alternative tax calculation and the methodology of the 2006 OEB Tax Model in the summary of the application

Prudent management of taxes

The Board expects all distributors to take prudent steps to manage their tax costs with reasonable diligence, as they would with other distribution expenses.

OEB 2006 regulatory taxes expense methodology

The specific instructions set out below explain how the Board expects an applicant to calculate regulatory taxes payable for inclusion in 2006 rates.

The tax amount included in rates reflects taxes payable as a result of operating the distribution-only business, rather than taxes calculated for accounting purposes, and hence future/deferred taxes will not be recovered through rates as a result of this filing.

The 2006 OEB Tax Model calculates regulatory tax expense based upon the principles set out in this Chapter.

The organization of the OEB tax model takes into account the standard format of corporate tax returns to be submitted to tax authorities. An applicant may wish to review its filed and assessed 2004 Federal T2 and Ontario CT23 tax returns before starting to complete the 2006 OEB Tax Model.

Use of historical data and future estimates to calculate 2006 tax expense

Revenues, expenses, capital items and all other operating numbers are calculated using the 2006 EDR Model based upon 2004 historical data plus or minus allowed or required adjustments. The 2006 OEB Tax Model automatically includes data from the 2006 EDR Model.

A distributor must make the adjustments described in the instructions to the OEB tax model. The OEB tax model then automatically calculates the recoverable 2006 PILs amount for inclusion in the main model.

Tax rates and exemptions to be used in the 2006 EDR Model

The 2006 OEB Tax Model and the 2006 Handbook guidelines relating to PILs are based upon tax rates and rules that, as of May 1, 2005, are reasonably expected by the Board to be in effect during the 2006 rate year.

Disclosure of PILs tax administration and tax rulings

To calculate the tax expense to be allowed in the 2006 revenue requirement, a distributor must follow the Board's regulatory tax principles set out in the 2006 Handbook and in the 2006 OEB Tax Model.

If a specific tax ruling or assessment policy applies to the distributor in a manner inconsistent with the 2006 OEB Tax Model, a summary of the ruling/policy shall be disclosed in the summary of the application. As well, the distributor's 2006 application must disclose if it has objected to the tax ruling or assessment policy where the effect of the dispute would be a significant change in taxes otherwise payable.

As part of the approval of a rate application, the Board will determine whether to require a variation in the regulatory tax calculation or to establish a variance account.

Partial true-up of 2006 actual taxes paid to taxes recovered in rates

The Board will establish a 2006 PILs/taxes variance account in the Accounting Procedures Handbook to capture the tax impact of the following differences:

- any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model
- any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities
- any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
    - received by the distributor after its 2006 rate application is filed, and before May 1, 2007
    - relating to any tax year ending prior to May 1, 2006

Where the re-assessment of a prior year results in an amount expensed in that prior year being treated as a depreciable property, the resulting increase in 2006 depreciation may reduce 2006 PILs, and the difference must be recorded in the 2006 PILs/taxes variance account. Similarly, if a re-assessment of a prior year results in income reported in that prior year being deferred and becoming taxable in 2006, the difference in tax in 2006 must be recorded in the 2006 PILs/taxes variance account.

Any true-up under this heading is to be implemented consistent with the further comments below on treatment of tax re-assessments.

Differences between actual taxes paid in 2006, and taxes recovered in rates resulting from any causes other than the three identified above, will not be credited or debited to the 2006 PILs/taxes variance account.

The above rules apply only to the 2006 PILs/taxes variance account. Any 2007 PILs/taxes variance account will be dealt with in subsequent Board decision or communication.

Tax re-assessments

No amount of tax relating to any prior year arising from a reassessment shall be included in rates for 2006. The true-up of 2006 taxes relating to re-assessments of taxation years ending prior to May 1, 2006, as set forth above, deals only with the impact on 2006 taxes of those re-assessments.

Account 1562 will remain available for entries affecting prior periods until all re-assessments of those prior years have been received, or the years have become statute-barred.

7.2 Principles Applicable to Specific Components of the Calculation

7.2.1 Non-recoverable and disallowed expenses

There may be some distribution-only expenses incurred by a distributor that are deductible for general tax purposes, but for which recovery in 2006 distribution rates is partially or fully disallowed.

The 2006 OEB regulatory tax methodology considers treatment of both non-recoverable and disallowed expenses. Specifically, the following are addressed:

- non-recoverable expenses known and taken into account at time of filing the 2006 EDR Model (for example, in respect of any expense disallowed under Chapter 6, but which will still be paid by the applicant)
- any distribution expenses disallowed after regulatory review, so that to capture the tax impact of such disallowed expenses, the 2006 EDR Model will need to be re-run using approved figures

Where an expense incurred by a distributor is non-recoverable in the revenue requirement or disallowed for 2006 OEB regulatory purposes, such amounts will also be excluded from the 2006 regulatory tax calculation (unless provided otherwise below for a specific item).

7.2.2 Capital tax exemptions

i) Federal Large Corporation Tax (LCT) Exemption

Where the applicant is the only regulated entity in a corporate group, the full LCT exemption must be claimed by the applicant for purposes of its 2006 OEB tax calculation.

Where the distributor is a member of a larger corporate group that includes other regulated entities, the exemptions will be prorated among the regulated entities.

ii) Ontario Capital Tax Exemption

Where the applicant is the only regulated entity in a corporate group, the full OCT exemption must be claimed by the applicant for purposes of its 2006 OEB tax calculation.

Where the applicant is a member of a larger corporate group, the full provincial capital tax exemption will be prorated among the regulated entities in that group.

iii) Non-distribution activities within an applicant

When distribution and non-distribution functions are being undertaken in the same legal entity by an applicant, the full federal LCT exemption and provincial capital tax exemptions must be claimed by the applicant for purposes of its 2006 OEB tax calculation.

7.2.3 Loss carry-forwards

A distributor expecting to have any loss carry-forwards still available on December 31, 2005 must disclose the amount of those loss carry-forwards in the 2006 application, and apply them in full to reduce the taxable income calculated in the 2006 regulatory tax calculation. These amounts are to be entered in the 2006 OEB Tax Model.

If a distributor has within its legal entity a business other than a distribution business, loss carry-forwards must be allocated between the distribution and the non-distribution business on a reasonable basis. The applicant shall include in Schedule 7-1 a description and justification of that allocation method and calculation.

7.2.4 Undepreciated capital cost (UCC) and capital cost allowance (CCA)

UCC for the test year will be calculated as follows. The closing year-end 2004 actual UCC balances by class from the distributor's actual tax return will be used. To these balances by class, the distributor will add any Tier 1 and Tier 2 capital expenditure adjustments allocated to the appropriate UCC class for each type of asset and its component parts. The half-year rule will be used for any Tier 1 and Tier 2 capital expenditures added to rate base.

Maximum CCA must be claimed when computing taxes payable for purposes of the 2006 OEB Tax Model. The OEB regulatory tax calculation will not take into account any increase in capital cost allowance when distribution assets are purchased above book value.

The effects of the 2001 Fair Market Value "bump" are to be included in the 2006 OEB regulatory tax calculations either as CCA or as the cumulative eligible capital deduction depending on its tax treatment in the distributor's tax return as filed with the Ministry of Finance.

An applicant must complete Schedule 7-2 to provide information about the fair market value "bump".

7.2.5 Regulatory tax treatment of Eligible Capital Expenditures (ECE):

Subject to the statements below, the maximum amortization of ECE must be claimed in computing taxes payable for purposes of the 2006 OEB Tax Model.

i) In respect of ECE arising from adjustments to fair market value at October 1, 2001

To the extent that the adjustment ("bump") in fair market value at October 1, 2001 is included in a distributor's Cumulative Eligible Capital Amounts, the value of such adjustments must be allocated to the applicant's ratepayers for purposes of its 2006 OEB PILs calculation. These adjustments will be factored into 2006 OEB Tax Model with appropriate instructions.

An applicant must complete Schedule 7-2 to provide information about the fair market value "bump".

ii) In respect of ECE related to other disallowed or non-recoverable expense

Subject to the above, where a distributor's Cumulative Eligible Capital Amounts includes purchased goodwill or other intangible assets that are non-recoverable or disallowed for regulatory purposes, such amounts will also be excluded from the 2006 regulatory tax calculation. The OEB regulatory tax calculation will not take into account any increase in capital cost allowance when distribution assets are purchased above book value.

7.2.6 Interest deduction

For purposes of the 2006 OEB regulatory tax calculation, the greater of the amount of the actual 2004 interest expense (taking into account the interest effect of any Tier 1 and Tier 2 adjustments proposed in the application), and the deemed interest expense calculated by the main model must be treated as a deduction for the purpose of calculating PILs/taxes.

At its starting point, the 2006 OEB Tax Model will automatically provide for the deduction of an amount of interest equal to the interest rate amount calculated by the main model.

The 2006 OEB Tax Model, however, also provides for any additional amount of actual interest expense due to the following:

- a higher actual interest rate than the calculated rate
- a higher ratio of debt to equity than the deemed ratio
- capitalized interest amounts

The distributor shall enter in the 2006 OEB Tax Model the amount of additional interest deduction expected for tax purposes in 2006 due to either of those causes. In addition, the applicant must complete Schedule 7-3.

7.2.7 Interest capitalized for accounting, but deducted for tax purposes

The applicant must identify the amount of any interest capitalized for accounting purposes in 2004. If a distributor elected to capitalize interest incurred on construction work in progress for tax purposes, any such amounts must also be identified. This election must be disclosed on Schedule 7-3.

7.2.8 Overlapping year-ends

The 2006 rate year runs from May 1, 2006 to April 30, 2007. The rate year is not contiguous with the calendar tax year. In order to calculate the approved regulatory tax payable for the 2006 rate year, however, the rate year will be assumed to be the same as the tax year. Thus any stub period issues (e.g. loss carry-forwards or CCA) will be ignored when completing the 2006 OEB Tax Model.

The only exception to this principle is in the tax rates to be applied. The tax rates anticipated to be in effect during 2006, at the time that the 2006 Handbook is issued, will be used in the 2006 OEB Tax Model. No further action by distributors is required.

7.2.9 Estimating taxable capital

When calculating 2006 regulatory Ontario Capital Tax and the federal LCT, the applied-for 2006 rate base in the application should be used as the proxy for 2006 taxable capital for OEB purposes.

The applicant has the option of substituting its estimated 2006 taxable capital for the rate base proxy. In such cases, the following information must be provided:

- full details of the capital tax calculation, including balance sheet assumptions
- the estimate calculated using rate base as a proxy

The 2006 OEB Tax Model incorporates the estimated 2006 taxable capital exemptions.

7.2.10 Ontario Corporate Minimum Tax

The 2006 regulatory tax calculation does not include the Ontario Corporate Minimum Tax. As this tax can be carried forward for ten years, it is expected that a distributor will recover this tax as it becomes taxable.

7.2.11 Non-distribution elimination

The 2006 OEB Tax Model will require that the applicant exclude any non-distribution costs and revenues. This elimination must be consistent with the definition of distribution-only activity contained within the 2006 Handbook.

7.2.12 Tax credits

Back-up calculations must include an estimate of any tax credits claimed in 2004, such as research and development credits.

7.2.13 Impact of CDM expenditures and Smart Meter expenditures

CDM and Smart Meter amounts are included in the revenue requirement upon which 2006 rates are set, and no special tax treatment is required.

7.2.14 Property Taxes

The OEB Tax Model addresses corporate income tax and capital taxes.

A distributor is also allowed to claim recovery of property taxes payable, including any "proxy" property taxes. Property tax expense is part of the other distribution expenses included in the 2006 EDR Model.

7.2.15 Capital Leases

Adjustments for leases that are capitalized for accounting purposes and deducted for tax purposes must be made in the 2006 OEB Tax Model.

7.3 Tax Payable Filings

7.3.1 Information to be Provided with 2006 OEB Tax Model Filings

An applicant must file, in its summary of the application, the taxes it actually paid for the years 2002, 2003, and 2004 with respect to the distribution business of the applicant. The summary of the application must also include a description of any variances between taxes actually paid in 2004, and the tax expense recovered in 2006 distribution rates, where such variances exceed 25% of 2004 taxes actually paid.

7.3.2 Tax Information Disclosure in Future

As part of its future regulatory filings, the distributor will be required to disclose the actual corporate PILs/taxes paid in 2006 and the amount collected in 2006 distribution rates.

If the difference between the two amounts is greater than 10%, that difference will be explained in that future filing. A distributor must keep appropriate records of the actual versus the recovered PILs/taxes for 2006, and the reasons for any differences.

7.3.3 Supporting Documentation

In some instances, disclosure of back-up information or calculations has been mandated, either in the form of a separate Schedule or at a designated place in the spreadsheet. A complete application must include the supporting information requested in filing instructions.

Where disclosure is not requested as part of the initial filing, an applicant should still maintain reasonable supporting documentation in case enquiries are made during the regulatory review process.

Schedule 7-1: Sharing Loss Carry-Forwards

Sharing Loss Carry-Forwards between Distribution and Non-Distribution Activities

Where distribution and non-distribution activities are being undertaken within the same legal entity by an applicant, any loss carry-forwards must be allocated on a reasonable basis between the distribution and non-distribution activities.

An applicant must provide a description and justification of the allocation method and calculation as follows:

A. Loss carry-forwards as at December 31, 2004:
Distribution ________
Non-distribution ________
Total from the 2004 tax return ________

B. Estimated loss carry-forwards as at December 31, 2005:
Distribution ________
Non-distribution ________
Total ________

A – B: Loss carry-forwards available for use in 2005:
Distribution ________
Non-distribution ________
Total ________

Schedule 7-2: October 2001 FMV Adjustment

1. Provide a summary of the amounts in undepreciated capital cost and cumulative eligible capital of the October 1, 2001 Fair Market Value adjustment (class of asset, dollar value increase or decrease, applicable write-off rate), for 2001 accounting and tax purposes. Provide an explanation if there is a difference for accounting and tax purposes.

2. *December 31, 2004 Impacts*

Provide a summary of the amounts in undepreciated capital cost and cumulative eligible capital of the October 1, 2001 Fair Market Value adjustment (class of asset, remaining dollar value increase or decrease, applicable write-off rate), for 2004 accounting and tax purposes. Provide an explanation if there is a difference for accounting and tax purposes.

Schedule 7-3: Interest Expense

1) Deemed 2004 interest expense in 2006 EDR Model = $________

2) 2004 RRR interest expense $________
Plus 2004 capitalized interest + $________
2004 actual interest = $________

Plus any interest forecast for Tier 1 or 2 adjustments + $________

Total interest = $________

3) Additional Interest Expense for 2006 OEB Tax Model = $ (2) – $(1) ________

If amount 2 exceeds amount 1, enter the difference in the 2006 OEB Tax model where indicated.

4) The applicant must indicate whether it made an election to capitalize interest incurred on CWIP for tax purposes for 2004 and prior years.

Chapter 8

8 Revenue Requirement

8.0 Introduction

This chapter provides a bridge between the preceding chapters, which dealt with the cost components included in the revenue requirement for 2006 rates, and the allocation of those costs to customer classes, sub-classes, or groups.

It is the responsibility of the applicant to define its revenue requirement and to record its annual costs and revenues in such a way as to avoid double recovery of any cost element in its rates, regulated charges, and other incidental sources of revenue.

8.1 Service Revenue Requirement

The 2006 service revenue requirement is based on costs incurred during 2004, incorporating Tier 1 and Tier 2 adjustments to rate base and distribution expenses, as detailed in the previous chapters. The cost elements described and determined in the previous chapters are combined to yield a 2006 service revenue requirement using the following formula:

Service Revenue Requirement = (Rate Base X Cost of Capital) + Distribution Expenses + PILs

8.2 Service Revenue Requirement and Base Revenue Requirement

Before the service revenue requirement can be allocated and distribution rates calculated, it is necessary to remove amounts that will be collected from other regulated charges and other sources of revenue. The service revenue requirement net of these offsets is referred to as the base revenue requirement.

The applicant must complete Schedules 8-1 and 8-2 to derive the base revenue requirement. Except where specified otherwise, the cost allocation and rate design methodologies identified in Chapters 9 and 10 and incorporated in the Model achieve the recovery of the base revenue requirement.

The following are to be removed as revenue offsets:

1. Revenue received from certain regulated charges applicable to distribution customers (including embedded distributors where applicable) and to retailers

The amounts in this first offset include:

- the revenue determined at the end of Schedule 11-3, Specific Service Charge Revenue, that includes revenue from Late Payment Charges (USoA Account 4225), and
- the revenue received by the application of Other Board-approved Charges and identified in the USoA as Revenues From Services – Distribution and Revenues From Services – Transmission. (Note, for host distributors see paragraph below regarding the inclusion of revenue anticipated to be received from embedded distributors for LV charges.)

2. Revenue received from any source other than regulated rates and charges, such as rental of facilities owned by the distributor, interest on bank accounts, and other incidental sources (Schedule 8-2).

Generally, this revenue is included in the USoA as Other Operating Revenues and Other Income/Deductions, except for accounts 4225 (Late Payment Charges) and 4235 (Miscellaneous Service Revenues) that have been dealt with above. If any of these accounts contain revenue from Board-approved rates and charges that is included in Schedule 11-3, the applicant must adjust the amounts in Schedule 8-1 to avoid double-counting of revenues.

Two revenue adjustments may be applicable to the amounts recorded in Schedule 8-1 to reflect Tier 1 adjustments. First, if the applicant is a host distributor, there may be revenue anticipated from embedded distributors in 2006 that differs from the revenue in 2004. The revenue offset to be used is the expected 2005 revenue, which should be included in Row 3. If such an adjustment is included, an explanatory note also must be included as part of the schedule. (See also section 10.7 of the Handbook).

Second, if there were unusual and non-recurring events in 2004 that produced revenue exceeding a materiality threshold of 3% of total revenue offsets, an adjustment may be made in Schedule 8-1. If the adjustment is included in row 4 of Schedule 8-1 as a result of an adjustment made in Schedule 8-2, the explanatory note must be added to Schedule 8-2.

8.3 Revenue Requirements for CDM, Smart Meter and Regulatory Asset Recovery

The Tier 1 adjustments in Chapter 3 include adjustments for CDM and Smart Meter costs. Direct CDM operating expenses are to be allocated on a different basis from the rest of the base revenue requirement. To allow for this separate allocation, the amounts of these expenses must be specifically identified in Schedule 3-4.

With respect to regulatory assets, the applicant is required to input the approved rate riders into the model, and complete Schedule 8-3.

Schedule 8-1: Derivation of Base Revenue Requirement

Row	Revenue Requirement	$	Source/Comments
1	Service Revenue Requirement		(Rate Base X Cost of Capital) + Distribution Expenses + PILS
2	Less: Revenue from Specific Service Charges and Late Payment Charges		Schedule 11-3
3	Less: Revenue from other Board-approved charges		Details to be provided below
4	Less: Revenue from sources other than Board-approved rates and charges		Row 6 from Schedule 8-2
5	Base Revenue Requirement		Row 1 – 2 – 3 - 4

Row 3 includes USoA accounts 4080(b), 4080(c), 4082, 4084. Please provide data here on the following two components of row 3:

SSS Administration Charge, account 4080(b): ____________________

Wheeling revenue, with Tier 1 adjustment, if applicable: ____________________

Additional comments regarding Schedule 8-1, if necessary.

Schedule 8-2: Revenue from Sources Other Than Board-Approved Rates and Charges

Row	Description of Revenue	2006 Revenue Offset	Comments
1	Other Operating Revenues		Accounts 4205 – 4245
2	Less: Revenue from Late Payment Charges and Specific Service Charges		Accounts 4225, 4235
3	Net "Other Operating Revenues"		Row 1 – Row 2
4	Other Income / Deductions		Accounts 4305 – 4398
5	Investment Income		Accounts 4405 - 4415
6	Total Revenue Offset # 2		Rows 3 + 4 + 5 Transferred to Row 4 of Schedule 8-1

Additional comments regarding Schedule 8-2, if necessary.

Schedule 8-3: Regulatory Asset Recovery

Class	**2005 Rate Rider *** $ / kWh	**2006 Rate Rider **** $ / kWh
Residential		
General < 50 kW		
	$/kW, or specify if other	$kW, or specify if other
General >50 kW		
Intermediate User		
Other classes as applicable		

* if 2005 rate riders are a component of the volumetric distribution rate, no entry is necessary in this column. This applies to most applicants. If the 2005 rate rider is a separate amount (some applicants), enter it in this column.

** Enter the value of the rate riders that are approved (if applicable) or that are being proposed for implementation in 2006.

Chapter 9

9 Cost Allocation

9.0 Introduction

In the 2001 RUD model, the initial distribution revenue requirement for each rate class, sub-class, or group was established by starting with the total revenue of the class, sub-class, or group collected by the bundled bill, and then subtracting the cost of power allocated to the class, sub-class, or group. Summed over all the rate classes, sub-classes, or groups, the initial total distribution revenue requirement was equal to total revenue less total cost of power.

A cost allocation study is required as a basis for making any significant change to the proportion of total revenue requirement that is assigned to each class, sub-class, or group. The load research results and the cost allocation methodology that are necessary for a cost allocation will not be available for 2006 distribution rate applications.

For 2006, therefore, the respective class distribution revenue requirements should continue at approximately the same proportions of the total distribution revenue requirement, as in the initial design.

9.1 Customer Classes

Currently, a distributor may have existing classes, sub-classes, or groups based upon particular circumstances, such as different arrangements or load thresholds, which may or may not have their own group revenue amounts. In this context, for example, the General Service Class is considered a rate class. On the other hand, general service customers <50 kW, unmetered scattered loads, and general service customers >50 kW would be sub-classes of this class.

For 2006, except as outlined below, a distributor will retain the existing customer rate class, sub-class or group definitions, because any proposal to change customer groupings would require support from a cost allocation study.

Changes in customer classes, sub-classes or groups should only be undertaken if there are unusual circumstances in which a change is clearly immediately required. The Board intends to review cost allocation and rate design in the future and an applicant should consider whether any changes to customer classes would be better incorporated into a more rigorous review. If a distributor proposes to make any change to its customer classifications, sub-classes, or groups - that is, if the rate class, sub-class, or group definitions currently in use are not suitable for use in 2006, or if the definitions are to be applied differently in 2006, compared to the current practice - the distributor must complete and file Schedule 9-1, together with a detailed explanation and justification for the proposed change.

A distributor may have a customer whose maximum billing demand is greater than 50 kW, but who is classified in the <50 kW sub-class, and is therefore billed on kWh. In 2006, the distributor will continue its existing practice with respect to the classification of this customer.

In an attempt to reduce any confusion regarding customer classification, a distributor must complete and file Schedule 9-2 to include a description of the eligibility criteria used by the distributor to determine a specific customer's rate classification. The information contained in this schedule may be used as a component of the distributor's rate tariff.

9.2 Determination of the Appropriate Share of the 2006 Revenue Requirement for Each Class, Sub-Class, or Group

In the absence of a cost allocation study, the following methodology has been established to determine the appropriate proportion of the total distribution revenue to be recovered from each class, sub-class, or group. The intention of this cost allocation model is to allocate costs to customer classes in the same proportions as costs were allocated on average in 2002 through 2004, but with adjustments where the number of customers or the throughput of any class has undergone a material change.

The methodology uses the 2004 rates minus the recovery of transition costs included in rates prior to 2004 and the recovery of the first phase of the regulatory assets in 2004. These rates are provided on Sheet 3 of the 2004 Rate Adjustment Model (RAM).

The revenues calculated using these rates will be close in proportion to those of the initial class revenue requirements. For most distributors, however, the allocation of the regulatory assets recovery to the respective classes has been done on a different basis.

These rates are then multiplied by the 2004 year-end class customer count (or connection count), times the average of the three years, 2002, 2003, and 2004, kWh/customer and kW/customer data. The resulting dollar amounts for each class, sub-class, or group are then added together to obtain a total dollar amount. The allocation factors that will be used for the 2006 rates will be ratios of each class's, sub-class's, or group's dollar amount to the total.

This method may not produce class proportional allocations that are suitable, in a distributor's opinion, for the 2006 rate process. For example, there may be a fundamental shift in the revenue base, such as the gain or loss of a major industrial customer. A materiality threshold of 2% of distribution revenue should be used as a guide for a distributor to consider making adjustments to the allocations.

Each distributor must complete and file Schedule 9-3 as part of its application.

If a distributor proposes to make any change to the methodology or charge determinants, it must complete and file Schedule 9-4, together with a detailed explanation and justification for the proposed change. A change in the charge determinants is a change in the average load as a result of Tier 1 load adjustments. For example, if the revenue from a major customer that provided a material proportion of distribution revenue in 2004 will not be available in 2006 either because it leaves or reduces its operation, the amount of the load lost must be taken into account when completing Schedule 9-4. Similarly, if revenue from a major new customer will be gained in a material amount in 2005 or 2006 or the operation of an existing major customer significantly increases, the amount of the new load is to be taken into account when completing Schedule 9-4.

These class, sub-class, or group proportions are then applied to the base revenue requirement, as determined in Chapter 8.

The resulting amount required from a given class, sub-class, or group used in the determination of the 2006 distribution rates is the sum of the class's, sub-class's, or group's proportional share of the base revenue requirement, plus its allocated share of the other costs.

9.3 Determination of the Appropriate Share of the 2006 CDM, Smart Meter, and Regulatory Asset Revenue Requirements

The 2006 EDR Model requires allocation factors for each of the revenue requirements as input.

For the allocation of the 2006 incremental revenue requirement associated with CDM activities, the direct program expensed costs will be allocated to the rate classes, sub-classes or groups specifically benefiting from the activities. The capital and indirect or overhead components of the revenue requirement will be allocated across all rate classes, sub-classes or groups based on the respective share of distribution revenue.

For the allocation of the 2006 incremental revenue requirement associated with Smart Meter activities, the revenue requirement will be allocated across all rate classes, sub-classes or groups based on the respective share of distribution revenue.

Schedule 9-1: Customer Classification

A distributor must complete this Schedule to indicate that it proposes either to maintain its existing customer classes, sub-classes or groups or to make changes to its customer classes, sub-classes or groups (i.e. if the rate class, sub-class or group definitions currently in use are not suitable for use in 2006 or if the definitions are to be applied differently in 2006 compared to the current practice).

Indicate the current and proposed customer classifications, as appropriate.

Customer Classification	**Current**	**Proposed**
Residential		
Regular	______	______
Time of Use	______	______
Urban	______	______
Suburban	______	______
Other (specify) ______________________	______	______
Other (specify) ______________________	______	______
Other (specify) ______________________	______	______
Other (specify) ______________________	______	______
Other (specify) ______________________	______	______
General Service		
Less than 50 kW	______	______
Less than 50 kW Time of Use	______	______
Other < 50 kW (specify) ______________	______	______
Greater than 50 kW	______	______
Greater than 50 kW Time of Use	______	______
Other > 50 kW (specify) ______________	______	______
Other > 50 kW (specify) ______________	______	______
Other > 50 kW (specify) ______________	______	______
Intermediate Use	______	______
Large Use	______	______
Unmetered Scattered Load	______	______
Sentinel Lighting	______	______
Street Lighting	______	______
Back-up/Standby Power	______	______
Other (specify) ____________________________	______	______
Other (specify) ____________________________	______	______

Provide a detailed explanation and justification for each of the proposed changes to the classifications.

Schedule 9-2: Customer Eligibility Criteria

A distributor must complete the applicable sections of this Schedule to indicate the eligibility criteria that it uses to determine a specific customer's rate classification.

Material for this schedule is typically included in Section 3 of a distributor's Conditions of Service.

To indicate the type of material being requested and to assist in completing the schedule, sample inputs have been provided in a few sections. A distributor must over-ride these examples and fill in the material for **all** its applicable customer classifications.

Customer Classification

Residential

Regular:
This classification refers to an account taking electricity at 750 volts or less where the electricity is used exclusively in a separately metered living accommodation. Customers shall be residing in single-dwelling units that consist of a detached house or one unit of a semi-detached, duplex, triplex or quadruplex house, with a residential zoning. Separately metered dwellings within a town house complex or apartment building also qualify as residential customers.

Time of Use:

Urban:

Suburban:

Other (specify) ______________________________:

Other (specify) ______________________________:

Other (specify) ______________________________:

Other (specify) ______________________________:

Other (specify) ______________________________:

General Service

Less than 50 kW:
This classification refers to a non residential account taking electricity at 750 volts or less whose monthly average peak demand is less than, or is forecast to be less than, 50 kW.

Less than 50 kW Time of Use:

Other < 50 kW (specify) ____________________:

Greater than 50 kW:
This classification refers to a non residential account whose monthly average peak demand is greater than, or is forecast to be greater than, 50 kW but less than 5,000 kW.

Greater than 50 kW Time of Use:

Other > 50 kW (specify) ____________________:

Other > 50 kW (specify) ____________________:

Other > 50 kW (specify) ____________________:

Intermediate Use:

Large Use:
This classification refers to an account whose monthly average peak demand is greater than, or is forecast to be greater than, 5,000 kW.

Unmetered Scattered Load:
This classification refers to an account taking electricity at 750 volts or less whose monthly average peak demand is less than, or is forecast to be less than, 50 kW and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. The customer will provide detailed manufacturer information/ documentation with regard to electrical demand/consumption of the proposed unmetered load.

Back-up/Standby Power:

Other (specify) ________________________:

Other (specify) ________________________:

Sentinel Lighting

Street Lighting:
This classification refers to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting operation, controlled by photo cells. The consumption for these customers will be based on the calculated connected load times the required lighting times established in the approved OEB street lighting load shape template.

Other

Other (specify) ________________________:

Schedule 9-3: Allocation Factors to Customer Classifications

A distributor must fill out this Schedule to provide the 2002, 2003 and 2004 statistical data required to determine the default allocation factors and to indicate acceptance or rejection of the default allocation methodology as outlined in Section 9.2.

For 2002

	2002 Customers (year end)	2002 kWh or kW	2002 per Cust.
Residential			
Regular	________	____________	________
Time of Use	________	____________	________
Urban	________	____________	________
Suburban	________	____________	________
Other (specify) ____________________	________	____________	________
Other (specify) ____________________	________	____________	________
Other (specify) ____________________	________	____________	________
Other (specify) ____________________	________	____________	________
Other (specify) ____________________	________	____________	________
General Service			
Less than 50 kW	________	____________	________
Less than 50 kW Time of Use	________	____________	________
Other < 50 kW (specify) ____________	________	____________	________
Greater than 50 kW	________	____________	________
Greater than 50 kW Time of Use	________	____________	________
Other > 50 kW (specify) ____________	________	____________	________
Other > 50 kW (specify) ____________	________	____________	________

Other > 50 kW (specify) ______________			
Intermediate Use			
Large Use			
Unmetered Scattered Load			
Sentinel Lighting			
Street Lighting			
Back-up/Standby Power			
Other (specify) ______________________			
Other (specify) ______________________			

For 2003

	2003 Customers (year end)	2003 kWh or kW	2003 per Cust.
Residential			
Regular	________	___________	________
Time of Use	________	___________	________
Urban	________	___________	________
Suburban	________	___________	________
Other (specify) ____________________	________	___________	________
Other (specify) ____________________	________	___________	________
Other (specify) ____________________	________	___________	________
Other (specify) ____________________	________	___________	________
Other (specify) ____________________	________	___________	________
General Service			
Less than 50 kW	________	___________	________
Less than 50 kW Time of Use	________	___________	________
Other < 50 kW (specify) ____________	________	___________	________
Greater than 50 kW	________	___________	________
Greater than 50 kW Time of Use	________	___________	________
Other > 50 kW (specify) ____________	________	___________	________
Other > 50 kW (specify) ____________	________	___________	________
Other > 50 kW (specify) ____________	________	___________	________
Intermediate Use	________	___________	________
Large Use	________	___________	________

Unmetered Scattered Load	________	____________	________
Sentinel Lighting	________	____________	________
Street Lighting	________	____________	________
Back-up/Standby Power	________	____________	________
Other (specify) ____________________	________	____________	________
Other (specify) ____________________	________	____________	________

For 2004

	2004 Customers (year end)	2004 kWh or kW	2004 per Cust.
Residential			
Regular			
Time of Use			
Urban			
Suburban			
Other (specify) ____________			
Other (specify) ____________			
Other (specify) ____________			
Other (specify) ____________			
Other (specify) ____________			
General Service			
Less than 50 kW			
Less than 50 kW Time of Use			
Other < 50 kW (specify) ________			
Greater than 50 kW			
Greater than 50 kW Time of Use			
Other > 50 kW (specify) ________			
Other > 50 kW (specify) ________			
Other > 50 kW (specify) ________			
Intermediate Use			
Large Use			

Unmetered Scattered Load			
Sentinel Lighting			
Street Lighting			
Back-up/Standby Power			
Other (specify) ____________________			
Other (specify) ____________________			

Average 2002 to 2004

	2002 - 2004 ave. per Cust.
Residential	
Regular	____________
Time of Use	____________
Urban	____________
Suburban	____________
Other (specify) ____________________	____________
Other (specify) ____________________	____________
Other (specify) ____________________	____________
Other (specify) ____________________	____________
Other (specify) ____________________	____________
General Service	
Less than 50 kW	____________
Less than 50 kW Time of Use	____________
Other < 50 kW (specify) ____________	____________
Greater than 50 kW	____________
Greater than 50 kW Time of Use	____________
Other > 50 kW (specify) ____________	____________
Other > 50 kW (specify) ____________	____________
Other > 50 kW (specify) ____________	____________
Intermediate Use	____________
Large Use	____________

Unmetered Scattered Load	____________
Sentinel Lighting	____________
Street Lighting	____________
Back-up/Standby Power	____________
Other (specify) ______________________	____________
Other (specify) ______________________	____________

The default methodology as outlined in Section 9.2 and incorporated in the Model is acceptable. Yes ____ No ____

If no, the distributor is proposing to make changes to the methodology and/or the statistical data used to derive the per customer data (e.g. as a result of a Tier 1 adjustment) and must complete Schedule 9-4.

Schedule 9-4: Non-default Allocation Factors to Customer Classifications

A distributor must fill out this Schedule if it is proposing to make changes to the default allocation methodology and/or the statistical data used to determine the allocation factors.

If a distributor proposes to use different data than shown in Schedule 9-3, it must provide the data in the following listing, together with a detailed explanation and justification at the end of this Schedule. If a distributor proposes a different methodology, it must provide a detailed explanation and justification at the end of this Schedule and provide the resultant set of data in the following listing.

	Customers	kWh or kW	per Cust.
Residential			
Regular			
Time of Use			
Urban			
Suburban			
Other (specify) ____________________			
Other (specify) ____________________			
Other (specify) ____________________			
Other (specify) ____________________			
Other (specify) ____________________			
General Service			
Less than 50 kW			
Less than 50 kW Time of Use			
Other < 50 kW (specify) ____________			
Greater than 50 kW			
Greater than 50 kW Time of Use			

Other > 50 kW (specify) ____________	________	____________	________
Other > 50 kW (specify) ____________	________	____________	________
Other > 50 kW (specify) ____________	________	____________	________
Intermediate Use	________	____________	________
Large Use	________	____________	________
Unmetered Scattered Load	________	____________	________
Sentinel Lighting	________	____________	________
Street Lighting	________	____________	________
Back-up/Standby Power	________	____________	________
Other (specify) ___________________	________	____________	________
Other (specify) ___________________	________	____________	________

The following is the detailed explanation and justification for not using the default allocation factors as determined in Schedule 9-3.

Chapter 10

10 Rates and Charges

10.0 Introduction

For the most part, existing methodologies, practices, and procedures are to be maintained for 2006, pending future cost allocation and rate design studies. Deviations from this general approach, if necessary, are identified in the following sections.

10.1 Fixed/Variable Split

The distribution rates have two components; namely, a fixed monthly service charge and a variable volumetric rate ($/kWh or $/kW depending on class, sub-class or group). The fixed/variable split refers to the ratio of the class, sub-class or group distribution revenue recovered through these two components.

The 2006 EDR Model has been developed on the basis that for each class, sub-class, or group, the ratios of the above revenues, as determined by applying the distribution base rates to the 2004 test year statistics, will be maintained in the 2006 distribution rates process.

The calculations used in the determination of the fixed/variable split for each class, sub-class, or group are detailed in the 2006 EDR Model.

The bases for the recovery of new adders to the distribution revenue (such as the recovery of regulatory assets) may be specified in Board Decisions. Where available, the Model has been designed to reflect these Decisions. Where not specified by the Board, the Model has been designed to use the same splits as for the class, sub-class, or group revenue requirements.

If an applicant proposes to make any change to the effective fixed/variable splits as determined by the Model (e.g. to mitigate rate impacts), it must complete and file Schedule 10-1, which includes a requirement to provide a detailed explanation and justification for the variance from the proposed methodology.

10.2 Unmetered Scattered Loads

This group of accounts includes those locations that are not specifically metered and may include such installations as bus shelters, telephone booths, CATV amplifiers, traffic signal lights, and billboard lighting.

There is considerable variability and inconsistency among distributors in the treatment of unmetered scattered loads for rate design and billing purposes and the levels charged to similar unmetered scattered load customers.

On an interim basis for 2006, prior to any detailed cost allocation and rate design reviews, unmetered scattered load customers will be treated as follows:

1) A distributor that currently has unmetered scattered load charges in either of the following two manners will maintain the *status quo* in its 2006 rate treatment of unmetered scattered loads:

   - The monthly service charge to customers having multiple unmetered connection points is on a per customer and not a per connection point, basis and the level of the charge is equal to or less than the General Service <50 kW monthly service charge per customer.

   OR

   - The distributor has developed and implemented a unique level of monthly service charge(s) payable by unmetered scattered load customers.

2) A distributor that currently bills its unmetered scattered load customers as small commercial or General Service <50 kW by applying the monthly service charge on a per connection point basis, shall set the level of the monthly service charge at 50% of the monthly service charge of the General Service <50 kW rate and continue to apply it on a per connection point basis.

3) From a revenue perspective, a distributor shall be kept whole as a result of any rate changes to the monthly service charge for unmetered scattered loads. Any revenue shortfall that may result from this interim measure will be recovered by means of a re-allocation of the revenue shortfall over all classes, sub-classes or groups in proportion to the class's (or sub-class's or group's) contribution to the distributor's total distribution revenue, and recovered from all the distributor's customers through both the fixed and the variable components of their respective distribution rates. The methodology for the re-allocation of the revenue shortfall as a result of applying this interim measure is incorporated into the 2006 EDR Model.

4) The methodology used by a distributor to estimate the load profiles and energy consumptions of these types of loads is not specifically incorporated into this interim solution. In the event, however, that a reasonable estimate of the energy use for a delivery point, or several points, is required, the specific customer will have reasonable advance notice of the proposed method and of

the estimate of the cost to the customer to establish and monitor a reasonable estimate of the energy use for a delivery point or for several delivery points.

The applicant must complete and file Schedule 10-2 as part of its application.

10.3 Time of Use Distribution Rates

A distributor that currently has a legacy time of use rate classification may, at its discretion, either retain that classification or attempt to harmonize the levels of the rates with the equivalent non-time of use classification. Such harmonization would be subject to any bill impact considerations.

If the applicant currently has a sub-classification entitled time of use, it must complete and file Schedule 10-3.

10.4 Transformer Ownership Allowance

The current levels of allowance for transformer ownership will be continued for the 2006 rates and will be explicitly shown on the distributor's rate schedule. An applicant must complete Schedule 10-4 to provide information on this allowance. The methodology for the inclusion of the transformer ownership allowance is incorporated into the 2006 EDR Model.

10.5 Update of Loss Adjustment Factor Reflecting System Losses Including Unaccounted-for Energy

The applicant must file Schedule 10-5 to update its current loss adjustment factors. The resultant loss adjustment factors will be used in the same manner as presently incorporated in the calculation of a customer's bill.

If the applicant determines that specific information warrants a departure from that average (e.g. gain or loss of large customers), it must provide a description of the change from the proposed methodology with a detailed explanation and justification for the variance as part of Schedule 10-5.

The level of distribution system losses is a matter for ongoing distributor due diligence. If a distributor's losses exceed 5% (ie. a loss adjustment factor of greater than 1.05), the distributor must report on the reason for this level of loss and provide an action plan as to how the distributor intends to reduce the level of losses.

Variances in distribution system losses costs, including both variances in loss volumes (kWh) and variances in the electricity commodity cost per kWh will be either credited or debited to the appropriate Variance Account in accordance with the current practice.

10.6 Standby Charges

Standby Charges are charges imposed by a distributor on a customer with load displacement facilities behind its meter to address the fact that the customer is dependent on the distributor for its entire electricity supply when the load displacement facility is out of service. The distributor must be appropriately compensated for maintaining the ability to accommodate the total load of a customer at any time. The level of the standby rate must try to ensure that the recovery of costs associated with the distributor's facilities that must be available to meet the customer's total demand is not inadvertently subsidized by the rest of the distributor's customers and, at the same time, the customer with load displacement is not unduly burdened by higher than reasonable charges.

The standby rate should be determined through a distributor specific analysis (and in some instances a case specific analysis) of the distribution costs that need to be recovered through the standby rate.

Where a distributor currently has a standby charge, it should be continued for 2006. If a distributor determines that there is a need to introduce a charge or if a distributor wants to modify its existing charge, it must include such a request as part of its 2006 rate application, justifying the methodologies, levels and procedures to be used. Schedule 10-6 includes a sample methodology and framework that might be used as a basis for such an application.

Subject to arrangements made between the customer and a distributor with respect to planned outages for maintenance, etc., for every month when the customer does not require the distributor to provide emergency supply (i.e. the load displacement facility has operated), the distributor would apply the standby charge to an agreed-upon "contracted standby demand" (typically, the name-plate rating of the load displacement facility) in addition to the customer's regular billing demand.

When the distributor supplies electricity normally supplied by the load displacement facility, the standby charge would be dropped and the customer would be billed on the metered demand to remove the double recovery of distribution costs.

In the determination of the level of the standby charge, the distributor may wish to include an amount to cover the incremental cost of monitoring, billing, and administration related to providing this service. If such a charge is unique and not rolled in to the regular standby charge, it will require a separate cost-justified submission as part of the distributor's Specific Service Charges.

10.7 Low Voltage Charges

Low voltage charges includes the following components:

- the rates charged by a host distributor (both Hydro One and other distributors) for providing low voltage and related services to an embedded distributor, and
- the recovery of the on-going costs, charged by the embedded distributor, to its retail customers.

The rates charged by a host distributor to an embedded distributor will be on a direct assignment basis. Host distributors must complete and file Schedule 10-7.

The recovery of the on-going low voltage charges charged to an embedded distributor by Hydro One and other host distributors will be done on the same basis as retail transformation connection charges and will be allocated to the customer classes on the same basis. The methodology for the determination of the appropriate rates regarding low voltage charges and revenue recovery is incorporated into the 2006 EDR Model.

10.8 Demand Determinants

The distributor will continue its current practice to establish the billing demands at the greater of 100% of the kW, or 90% of the kVa amounts. A distributor that has established its level of the volumetric demand rates based upon the application of 100% of kVa demand may continue on this basis.

10.9 Recovery of CDM, Smart Meter, and Regulatory Asset Revenue Requirements

CDM operating expenses approved for recovery in 2006 will be recovered through a rate rider. CDM capital expenditures, however, are to be treated in the same manner as other capital expenditures, and recovered through the variable portion of the base rates.

Smart Meter expenditures will generally be recovered through base rates. If, however, any expenditures are a one time operating expense that will not be repeated in subsequent years, the applicant should state this fact in its summary of the application.

Regulatory asset amounts will continue to be collected in a rate rider.

Schedule 10-1: Determination of the Fixed/Variable Splits

The Model will establish the respective fixed/variable splits for each class, sub-class or group using the methodology outlined in the handbook. This Schedule is to be used if the distributor proposes to make any changes to the effective splits.

The distributor must provide the data in the following listing, together with a detailed explanation and justification at the end of this Schedule.

	Determined by Model		As Proposed	
Customer Classification	Fixed	Variable	Fixed	Variable
Residential				
Regular				
Time of Use				
Urban				
Suburban				
Other (specify) ____________				
Other (specify) ____________				
Other (specify) ____________				
Other (specify) ____________				
Other (specify) ____________				
General Service				
Less than 50 kW				
Less than 50 kW Time of Use				
Other < 50 kW (specify) ____________				
Greater than 50 kW				
Greater than 50 kW Time of Use				
Other > 50 kW (specify) ____________				
Other > 50 kW (specify) ____________				
Other > 50 kW (specify) ____________				
Intermediate Use				
Large Use				
Unmetered Scattered Load				
Sentinel Lighting				
Street Lighting				
Back-up/Standby Power				
Other (specify)				
Other (specify)				

The following is the detailed explanation and justification for not using the fixed/variable splits as determined in the Model.

Schedule 10-2: Unmetered Scattered Loads

A distributor must complete this Schedule regarding unmetered scattered loads.

1) Currently, the monthly service charge to unmetered scattered load customers having multiple unmetered connection points is on a per customer and not a per connection point basis and the level of the charge is equal to or less than the General Service <50 kW monthly service charge per customer.

Yes ____
No ____

2) Currently, there is an unique level of monthly service charge(s) payable by unmetered scattered loads.

Yes ____
No ____

If the response is yes to either question 1 or 2, the distributor will maintain the status quo in its 2006 rate treatment of unmetered scattered loads, otherwise the distributor will fill in the following table and the rates will be established by the Model, as outlined in point 2 of section 10.2. The Model will also calculate the revenue shortfall and allocate it according to point 3 of section 10.2.

	Customers	kWh
2002 Unmetered Scattered Load	____	________
2003 Unmetered Scattered Load	____	________
2004 Unmetered Scattered Load	____	________
Average Unmetered Scattered Load	____	________

Schedule 10-3: Time of Use Distribution Rates

A distributor that currently has a sub-classification(s) entitled "Time of Use" must complete this Schedule to indicate that it proposes either to maintain the existing methodology to determine a separate set of distribution rates associated with this sub-classification or to harmonize the distribution rates with the equivalent non time of use sub-classification. In choosing the latter option, a distributor may retain the Time of Use sub-classification for statistical or other purposes.

This distributor currently has a sub-classification(s) entitled "Time of Use".

Yes ____
No ____

This distributor proposes to maintain the existing methodology to determine a separate set of distribution rates associated with the "Time of Use" sub-classification(s).

Yes ____

OR

This distributor proposes to harmonize the distribution rates with the equivalent non time of use sub-classification. In choosing this option the distributor may retain the "Time of Use" sub-classification for statistical or other purposes.

Yes ____

The following is a detailed explanation and justification of the proposed harmonization methodology, including an implementation plan. In addition, the Impact Analysis part of the Model has been modified to include sufficient bill comparisons to reflect this harmonization.

Schedule 10-4: Transformer Ownership Allowance

A distributor must complete this Schedule regarding transformer ownership allowance.

provide the 2002, 2003 and 2004 data by sub-class or group as appropriate.

2002	**kW**	**$**
General Service		
Greater than 50 kW	________	________
Greater than 50 kW Time of Use	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Intermediate Use	________	________
Large Use	________	________

2003	**kW**	**$**
General Service		
Greater than 50 kW	________	________
Greater than 50 kW Time of Use	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Intermediate Use	________	________
Large Use	________	________

2004	**kW**	**$**
General Service		
Greater than 50 kW	________	________
Greater than 50 kW Time of Use	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Other > 50 kW (specify) ________________	________	________
Intermediate Use	________	________
Large Use	________	________

Schedule 10-5: Determination of Loss Adjustment Factors

A distributor must complete this Schedule to update the currently approved distribution loss adjustment factors.

Calculation for distribution loss adjustment factors

		2002	2003	2004
A	"Wholesale" kWh (IMO)			
B	"Wholesale" kWh for Large Use customer(s) (IMO)			
C	Net "Wholesale" kWh (A)-(B)			
D	"Retail" kWh (Distributor)			
E	"Retail" kWh for Large Use Customer(s) (1% loss)			
F	Net "Retail" kWh (D)-(E)			
G	Loss Factor [(C)/(F)]			
H	Distribution Loss Adjustment Factor (3 year ave.)			

A distributor may propose to use a different loss factor for its large use customer(s) instead of the default 1%, if explained and justified at the end of this Schedule.

If a distributor proposes to use a different distribution loss adjustment factor than as calculated above (H), it must provide a detailed explanation and justification at the end of this Schedule.

If the resulting distribution loss adjustment factor (H) is greater than 5%, the distributor must provide a detailed explanation and justification at the end of this Schedule.

The following is the detailed explanation and justification for not using the default large use 1% loss factor and/or for using a different distribution loss adjustment factor than as determined above:

The following is the detailed explanation and justification for using a different loss adjustment factor than as calculated above (H):

The following is the reason for a line loss level above 5% and the action plan for reducing the level of losses:

Schedule 10-6: Standby Charges

A distributor must complete this Schedule to indicate how it proposes to deal with a customer requiring standby power.

For 2006, will a distributor with currently approved standby charges continue to use them and the conditions of service under which they are applied?

Yes ____ No ____

If the distributor is proposing a new set of standby charges or a revision to an existing set of charges using a different methodology (such as a more detailed direct assignment of costs), it must provide a detailed explanation and justification in the following section of this Schedule. The following example provides a sample methodology.

	percent
Distributor debt rate (deemed)	
Distributor return on equity before tax (deemed)	
Distributor tax rate	
Distributor return before tax	0.00%

deemed debt share	
deemed equity share	

Standby (SB) Charges based on cost tracking and rate based recovery

1	2	3	4	5	6	7	8
						Share of facilities	
						kW or kVA	*kW or kVA*
Asset Class	Total annual OM&A costs of asset class providing SB services	original cost of asset class providing SB services	Accumulative amortization on asset class providing SB services	Annual amortization on asset class providing SB services	NBV of asset class providing SB services	Total line length or station capacity in asset class	Line length providing SB services
Primary feeders					$ -		
Distribution Stations					$ -		
Low Voltage lines					$ -		

... continued on next page

	9	10	11	12	13	14	15	16
	Share of facilities							
	kW or kVA	*kW or kVA*	*percent*	*$*	*$*	*$*	*$*	*$/kW or $/kVA*
Asset Class	line capacity providing SB services	line capacity or station capacity used to provide SB services	Utilization factor	return on assets used to provide SB Services	Annual Amortization on assets used to provide SB Services	OM & A cost associated with assets used to provide SB Services	Total annual cost associated with assets used to provide SB Services	Monthly Rate associated with the delivery of SB Services
Primary feeders								
Distribution Stations								
Low Voltage lines								

Is the distributor applying for a monthly administration charge as part of its Specific Service Charges, as outlined in section 10.6?

Yes ____
No ____

If yes, the level of the charge must be cost-justified and submitted as part of the Specific Service Charge section of the application.

Schedule 10-7: Low Voltage Charges

A host distributor must complete this Schedule to outline its proposed Low Voltage Charges.
The following example provides a sample methodology that might be used.

SAMPLE METHODOLOGY
Low Voltage (LV) Charges
Cost tracking and rate based recovery for host distributors.

	percent
Distributor debt rate (deemed)	
Distributor return on equity before tax (deemed)	
Distributor tax rate	
Distributor return before tax	0.00%

deemed debt share	
deemed equity share	

1	2	3	4	5	6
Asset Class	Total annual OM&A costs of asset class providing LV services	original cost of asset class providing LV services	Accumulative amortization on asset class providing LV services	Annual amortization on asset class providing LV services	NBV of asset class providing LV services
Primary feeders					$ -
Distribution Stations					$ -
Low Voltage lines					$ -

	7	8	9	10	11
	Share of facilities		*Share of facilities*		
	kW or kVA	*kW or kVA*	*kW or kVA*	*kW or kVA*	*percent*
Asset Class	Total line length or station capacity in asset class	Line length providing LV services	line capacity providing LV services	line capacity or station capacity used to provide LV services	Utilization factor
Primary feeders					
Distribution Stations					
Low Voltage lines					

... continued on next page

	12	13	14	15	16
	$	*$*	*$*	*$*	*$/kW or $/kVA*
Asset Class	return on assets used to provide LV Services	Annual Amortization on assets used to provide LV Services	OM & A cost associated with assets used to provide LV Services	Total annual cost associated with assets used to provide LV Services	Monthly Rate associated with the delivery of LV Services
Primary feeders					
Distribution Stations					
Low Voltage lines					

Chapter 11

11 Specific Service Charges

11.0 Introduction

A Specific Service Charge is an approved fixed rate charged to a customer for a specific activity or service, or as a penalty. Activities include services that are only available from, or under the control of, the distributor. There are also special or extra services that a distributor chooses to provide. Such services may be those that are of benefit to the distributor or to other customers, and that are provided at a customer's request or as the result of a customer's action or inaction.

This 2006 Handbook provides a set of well-defined Specific Service Charges that could be provided by a distributor, together with either a specific level of charge or a specific basis for the determination of the charge. All distributors should apply the basic set of services uniformly. There should be no difference in the application of these services among distributors.

Specific Service Charges are established for activities that are over and above the distributor's standard level of service. The Board has outlined what it considers to be a standard level of service for a distributor in the Distribution System Code. The costs of providing the standard level of service are recovered in the regular distribution rates.

Specific Service Charges are an integral part of a distributor's approved schedule of rates for the distribution of electricity. The revenue from these charges is taken into account in calculating a distributor's total revenue requirement. There should be no duplication in the recovery of costs between the Specific Service Charges and the regular distribution rates. Double recovery is to be avoided.

A distributor may determine that a particular Specific Service Charge is not necessary, as it considers the activity to be part of its standard level of service, and the costs are recovered in its regular distribution rates.

As a matter of principle, there should be at least 40 hours per week where service is available at the standard price. As part of its application, a distributor will have to specify in Schedule 11-1 what these hours are. The application of higher charges for services done outside of these regular hours will be limited to instances where the customer requests "after hours" service. Emergencies related to safety or reliability will not be billed at the higher after hours rates.

The application of a Specific Service Charge may be waived by a distributor provided that the waiver is fairly applied, the practice does not become discriminatory, and it does not provide special terms by way of bonus or otherwise, to the terms at which particular customers are supplied.

A distributor may apply for any unique Specific Service Charge or level of charge. Unique circumstances requiring unique charges or levels require adequate justification by the distributor as part of its application to the Board.

Specific Service Charges can be categorized into the following types of charges:

- Customer Administration Charges (see section 11.2)
- Non-Payment of Account Charges (see section 11.3)
- Service Call Charges (see section 11.4)
- Temporary Electricity Service Charges (see section 11.5)
- Specific Charge for Access to the Power Poles of a Distributor (see section 11.6)
- Other Services and Charges (see section 11.7)

Further descriptions of each category are provided in the noted sections.

For 2006, every applicant must complete and file Schedule 11-1, outlining the Specific Service Charges it has submitted for approval as part of the rate application.

The applicant may choose one of the following four approaches to define the level of the charge to bill the customer:

- the standard amount, as specified in Schedule 11-1.

- the standard formula, as specified in Schedule 11-2, with adjustments

  If the applicant elects to adjust the level determined by the standard formula, it must provide additional evidence of cost justification for the adjustments.

- the level determined on a basis other than the standard formula

  The applicant must provide evidence to justify the use of a non-standard formula.

- A distributor may specify in its Conditions of Service that the specific service being provided will be charged on an actual cost, time and materials basis, or a pass-through of third party costs. On this basis, approval of the Board is not required, but the applicant must maintain records that demonstrate that the actual cost was charged to the customer.

Other activities undertaken by a distributor could be categorized as contractual arrangements, such as billing for water or sewage for a municipality, or the provision of meter translation/verification services for other distributors. The specifics of such arrangements, including the level of the charge, need not be subject to approval by the Board, provided that the applicant submits a statement that identifies all such activities and the revenue received from them. The applicant must state in the summary of the application that there is no cross-subsidy from ratepayers. The distributor must maintain records that demonstrate that the actual cost was charged to the customer. Revenue from these activities must be included in Schedule 8-1.

11.1 Methodology

The applicant must file Schedule 11-1 to provide a list of the services within each of the identified Charge Codes. An applicant can use Schedule 11-2 to calculate a standard set of specific service charges.

Elements of the calculation for each charge include the following:

- direct labour (internal and/or external)
- labour rate (internal and/or external)
- burden rate
- incidental (e.g. postage for mail)
- vehicle time and rate (if applicable)

The details of each element are found in Schedule 11-2. The specific charge is the sum of these elements.

11.2 Customer Administration

This category's activities or services include those customer requests which are not common to the day-to-day practices as outlined in the distributor's Conditions of Service. Contributing factors used to determine the rate are the length of clerical time and effort required to process the customer's request, and the requirement of a field visit or service call.

There are two standard levels of Customer Administration Charge. One is based upon minor clerical effort (up to 20 minutes in time) with no field visit. The other is based upon more clerical effort (up to 30 minutes in time) and possibly a field visit.

Services falling under the first category include the preparation of an arrears certificate, a statement of account/bill copy, or a duplicate invoice for a previous billing.

Services falling under the second category include account set-up, meter dispute test, and service connection for an installation not covered in the distributor's standard level of service and special meter reads.

11.3 Non-Payment of Account

A distributor's rates include the costs involved in the routine collection of accounts. The rates do not include the activities associated with the non-payment of overdue accounts, as the costs should not be recovered from customers who pay promptly.

The charges that apply to non-payment of account include the following: late payment charge, collection of account service charge, and reconnection of electricity service charge. Any actual pass-through costs, such as bank charges or third party charges, may be added to these charges.

11.3.1 Late Payment Charge

When the total amount of a customer's bill has not been paid within the time outlined by the distributor (which shall be a minimum of sixteen calendar days from the date of mailing or hand delivery of the bill), a late payment charge may be applied to the outstanding balance.

A monthly interest rate of 1.5% (19.56% *per annum*) has been established as the maximum level of this charge for all distributors.

The late payment charge rate and the policy of when it is charged must be disclosed and made available to the customer.

11.3.2 Collection of Account Charge

The collection of account charge is intended to cover the field costs, or part of the costs, of additional collection activities that are beyond the routine of a distributor, as a result of an individual customer's non-payment of its account.

The Distribution System Code defines a disconnect/collect trip as, a visit to a customer's premises by an employee or agent of the distributor to demand payment of any outstanding amount, or to shut off or limit distribution of electricity to the customer failing payment.

11.3.3 Reconnection of Electricity Service Charge

Pursuant to Section 31 of the *Electricity Act*, and within good management practice, a distributor may consider disconnection of electricity service for non-payment of account. Within its disconnection policy, a distributor may establish a reconnection of electricity service charge. This charge would recover the costs of the physical process of re-establishing power to the customer.

11.4 Service Calls

These are special or extra services to a distributor's standard level of service, and are provided upon a customer's request. The costs of these services can be recovered by billing the actual cost to the customer, or through a Specific Service Charge. When the customer is billed the actual cost of the work, Board approval is not required. If for practical purposes, however, a distributor wishes to use a standard specific charge for its service calls, Board approval is required for the charge. Depending upon the amount of work involved (e.g. amount of field time), the appropriate Charge Code in Schedule 11-1 should be used.

11.5 Temporary Electricity Service Charge

When a customer or its agent requests a temporary service installation, it should pay for the cost of erecting and removing any distributor-owned equipment. A charge may also be made for any transformation equipment supplied by the distributor specifically for this service.

The costs for these services can be recovered by billing the actual cost to the customer, or through a Specific Service Charge. When the customer is billed the actual cost of the work, Board approval is not required. If for practical purposes, however, a distributor wishes to establish a specific charge for the provision of a temporary service, Board approval is required for the charge, which is normally inclusive of some material.

Since at least a component, if not all, of this service could be provided by others, the level of the charge should not be set so as to preclude the ability of another party to provide the service.

11.6 Specific Charge for Access to the Power Poles of a Distributor

As part of the Decision and Order regarding access to the power poles by telecommunications carriers and cable companies (RP-2003-0249), the Board established the rates to be charged by the distributors at $22.35 per user, per pole, per year. If applicable, this charge will be included as a Specific Service Charge on a distributor's rate schedule.

11.7 Other Services and Charges

There may be special and/or extra services that a distributor chooses to provide for which it recovers the costs directly from those customers requiring the service, either through an approved service charge, or at actual cost. Some distributors have included in their Conditions of Service charges that require Board approval. Board approval of a rate or charge is required unless the rate or charge is one of the following:

- i.) a rate or charge for a specific customer based upon the actual costs of the provision of a one time service
- ii.) a general customer rate or charge that is a flow-through of third party costs

The other services and charges category also includes services that may be available from providers other than the distributor; for example, a service call for customer-owned equipment for which service can be obtained from private service companies.

11.8 Revenue from Specific Service Charges

The applicant must file Schedule 11-3 to provide a calculation of the revenue to be received from specific service charges in 2006. The resulting revenue calculation will be used in the 2006 EDR Model as a revenue offset.

Revenue from connection charges based upon "time and materials" is to be included as specific service charge revenue.

Schedule 11-1: Specific Service Charges: Standard Amounts

Specific Service Charges - Summary

Rate Code	Standard Name	Std Amt	Calculation Method - Check box		
			Standard Formula (attach calculation & justification)	Other Formula (attach calculation & justification)	Time & Materials
1	Arrears certificate	$15 ___	___	___	___
2	Statement of account	$15 ___	___	___	___
3	Pulling post dated cheques	$15 ___	___	___	___
4	Duplicate invoices for previous billing	$15 ___	___	___	___
5	Request for other billing information	$15 ___	___	___	___
6	Easement letter	$15 ___	___	___	___
7	Income tax letter	$15 ___	___	___	___
8	Notification charge	$15 ___	___	___	___
9	Account history	$15 ___	___	___	___
10	Credit reference/credit check (plus credit agency costs)	$15 ___	___	___	___
11	Returned cheque charge (plus bank charges)	$15 ___	___	___	___
12	Charge to certify cheque	$15 ___	___	___	___
13	Legal letter charge	$15 ___	___	___	___
14	Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	$30 ___	___	___	___
15	Special meter reads	$30 ___	___	___	___
16	Collection of account charge - no disconnection	$30 ___	___	___	___
17	Collection of account charge - no disconnection - after regular hours	$165 ___	___	___	___
18	Disconnect/Reconnect at meter - during regular hours	$65 ___	___	___	___
19	Install/Remove load control device - during regular hours	$65 ___	___	___	___
20	Disconnect/Reconnect at meter - after regular hours	$185 ___	___	___	___
21	Install/Remove load control device - after regular hours	$185 ___	___	___	___
22	Disconnect/Reconnect at pole - during regular hours	$185 ___	___	___	___
23	Disconnect/Reconnect at pole - after regular hours	$415 ___	___	___	___
24	Meter dispute charge plus Measurement Canada fees (if meter found correct)	$30 ___	___	___	___
25	Service call - customer-owned equipment	$30 ___	___	___	___
26	Service call - after regular hours	$165 ___	___	___	___
27	Temporary service install & remove – overhead - no transformer	$500 ___	___	___	___
28	Temporary service install & remove – underground - no transformer	$300 ___	___	___	___
29	Temporary service install & remove – overhead - with transformer	$1,000 ___	___	___	___
30	Specific Charge for Access to the Power Poles $/pole/year	$22.35 ___	___	___	___
Additional Charges - Please be Specific					
31		N/A ___	___	___	___
32		N/A ___	___	___	___
33		N/A ___	___	___	___
34		N/A ___	___	___	___
35		N/A ___	___	___	___
36		N/A ___	___	___	___
37		N/A ___	___	___	___
38		N/A ___	___	___	___
39		N/A ___	___	___	___
40		N/A ___	___	___	___
41		N/A ___	___	___	___

Regular Hours of Operation: Weekdays (excluding statutory holidays) from 8:00 am to 4:00 pm (**revise as appropriate)**

NOTE: Application of higher charges for services done outside of regular hours will be limited to instances where the customer requests "after hours" service. Emergencies related to safety or reliability will not be billed at the after regular hours rates.

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Derivation of Standard Rates and Model for Deriving Distributor Specific Rates	
Specific Service Charge Description:	**$15 Specific Service Charge Calculation**

Used For:

- **Arrears certificate**
- **Statement of account**
- **Pulling post dated cheques**
- **Duplicate invoices for previous billing**
- **Request for other billing information**
- **Easement letter**
- **Income tax letter**
- **Notification charge**
- **Account history**
- **Credit reference/credit check (plus credit agency costs)**
- **Returned cheque charge (plus bank charges)**
- **Charge to certify cheque**
- **Legal letter charge**

		Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time	23.00	0.4		$9.20
A	Direct Labour (inside staff) Overtime				
B	Direct Labour (field staff) Straight Time	27.00			
O	Direct Labour (field staff) Overtime	27.00			
U	Other Labour (Specify)				
R	Payroll Burden %	30%			$2.76
	Total Labour Cost				$11.96
O	Small Vehicle Time	10.00			
T	Large Vehicle Time	42.00			
H	Other: Material				
E	Contract				
R	Other	2.00			$2.00
	Total Other				$2.00
Total Cost					$13.96
	Specific Service Charge Value Requested - Round to nearest $5				**$15.00**

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$30 Specific Service Charge Calculation**

Used For:

Account set up charge/change of occupancy charge (plus credit agency costs if applicable)
Special meter reads
Collection of account charge - no disconnection
Meter dispute charge plus Measurement Canada fees (if meter found correct)
Service call - customer-owned equipment

			Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time		23.00	0.5		$11.50
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	0.3		$8.10
O	Direct Labour (field staff) Overtime		27.00			
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$5.88
		Total Labour Cost				$25.48
O	Small Vehicle Time		10.00	0.3		$3.00
T	Large Vehicle Time		42.00			
H	Other:	Material				
E		Contract				
R		Other	2.00			$2.00
		Total Other				$5.00
Total Cost						$30.48
	Specific Service Charge Value Requested - Round to nearest $5					**$30.00**

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$65 Specific Service Charge Calculation**

Used For:

Disconnect/Reconnect at meter - during regular hours
Install/Remove load control device - during regular hours

		Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time	23.00	0.5		$11.50
A	Direct Labour (inside staff) Overtime				
B	Direct Labour (field staff) Straight Time	27.00	1		$27.00
O	Direct Labour (field staff) Overtime	27.00			
U	Other Labour (Specify)				
R	Payroll Burden %	30%			$11.55
	Total Labour Cost				$50.05
O	Small Vehicle Time	10.00	1		$10.00
T	Large Vehicle Time	42.00			
H	Other: Material				
E	Contract				
R	Other	3.00			$3.00
	Total Other				$13.00
Total Cost					$63.05
	Specific Service Charge Value Requested - Round to nearest $5				**$65.00**

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	$165 Specific Service Charge Calculation

Used For:

Collection of account charge - no disconnection - after regular hours

Service call - after regular hours

			Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time		23.00	0.6		$13.80
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00			
O	Direct Labour (field staff) Overtime 2hr min		27.00	2	2	$108.00
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$36.54
		Total Labour Cost				$158.34
O	Small Vehicle Time		10.00	0.3		$3.00
T	Large Vehicle Time		42.00			
H	Other:	Material				
E		Contract				
R		Other	3.00			$3.00
		Total Other				$6.00
Total Cost						$164.34
	Specific Service Charge Value Requested - Round to nearest $5					**$165.00**

Assumes 1 person - One visit on overtime & minimum 2 hr call out

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$185 Specific Service Charge Calculation**

Used For:

Disconnect/Reconnect at meter - after regular hours
Install/Remove load control device - after regular hours

			Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time		23.00	0.5		$11.50
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	0.5		$13.50
O	Direct Labour (field staff) Overtime 2hr min		27.00	2	2	$108.00
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$39.90
		Total Labour Cost				$172.90
O	Small Vehicle Time		10.00	1		$10.00
T	Large Vehicle Time		42.00			
H	Other:	Material				
E		Contract				
R		Other	2.00			$2.00
		Total Other				$12.00
Total Cost						$184.90
	Specific Service Charge Value Requested - Round to nearest $5					**$185.00**

Assumes 1 person - One visit on overtime & minimum 2 hr call out

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$185 Specific Service Charge Calculation- 2 Person Line Crew**

Used For:

Disconnect/Reconnect at pole - during regular hours

			Rate/Amount	**Hours/Units**	**O/T Factor**	**Calculated Cost**
L	Direct Labour (inside staff) Straight Time		23.00	0.5		$11.50
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	3		$81.00
O	Direct Labour (field staff) Overtime 2hr min		27.00		2	
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$27.75
		Total Labour Cost				$120.25
O	Small Vehicle Time		10.00			
T	Large Vehicle Time		42.00	1.5		$63.00
H	Other:	Material				
E		Contract				
R		Other	2.00			$2.00
		Total Other				$65.00
Total Cost						$185.25
	Specific Service Charge Value Requested - Round to nearest $5					**$185.00**

Assumes 2 person line crew

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$415 Specific Service Charge Calculation**

Used For:

Disconnect/Reconnect at pole - after regular hours

		Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time	23.00	0.5		$11.50
A	Direct Labour (inside staff) Overtime				
B	Direct Labour (field staff) Straight Time	27.00	1.5		$40.50
O	Direct Labour (field staff) Overtime 2hr min	27.00	4	2	$216.00
U	Other Labour (Specify)				
R	Payroll Burden %	30%			$80.40
	Total Labour Cost				$348.40
O	Small Vehicle Time	10.00			
T	Large Vehicle Time	42.00	1.5		$63.00
H	Other: Material				
E	Contract				
R	Other	2.00			$2.00
	Total Other				$65.00
Total Cost					$413.40
	Specific Service Charge Value Requested - Round to nearest $5				**$415.00**

Assumes 2 person line crew - One visit on overtime & minimum 2 hr call out

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$300 Specific Service Charge Calculation**

Used For:

Temporary service install & remove - underground - no transformer

			Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time		23.00			
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	5.5		$148.50
O	Direct Labour (field staff) Overtime		27.00			
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$44.55
		Total Labour Cost				$193.05
O	Small Vehicle Time		10.00	1.5		$15.00
T	Large Vehicle Time		42.00	2		$84.00
H	Other:	Material	5.00			$5.00
E		Contract				
R		Other	3.00			$3.00
		Total Other				$107.00
Total Cost						$300.05
	Specific Service Charge Value Requested - Round to nearest $5					**$300.00**

Assumes 1.5 hours for engineering plus 2 people 2 hours each to install/remove

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$500 Specific Service Charge Calculation**

Used For:

Temporary service install & remove - overhead - no transformer

			Rate/Amount	**Hours/Units**	**O/T Factor**	**Calculated Cost**
L	Direct Labour (inside staff) Straight Time		23.00			
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	7.5		$202.50
O	Direct Labour (field staff) Overtime		27.00			
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$60.75
		Total Labour Cost				$263.25
O	Small Vehicle Time		10.00	1.5		$15.00
T	Large Vehicle Time		42.00	3		$126.00
H	Other:	Material	95.00			$95.00
E		Contract				
R		Other	3.00			$3.00
		Total Other				$239.00
Total Cost						$502.25
	Specific Service Charge Value Requested - Round to nearest $5					**$500.00**

Assumes 1.5 hours for engineering plus 2 people 3 hours each to install/remove

Schedule 11-2: Specific Service Charges: Standard Formula and Amounts

Specific Service Charge Description:	**$1000 Specific Service Charge Calculation**

Used For:

Temporary service install & remove - overhead - with transformer

			Rate/Amount	Hours/Units	O/T Factor	Calculated Cost
L	Direct Labour (inside staff) Straight Time		23.00			
A	Direct Labour (inside staff) Overtime					
B	Direct Labour (field staff) Straight Time		27.00	15.5		$418.50
O	Direct Labour (field staff) Overtime		27.00			
U	Other Labour (Specify)					
R	Payroll Burden %		30%			$125.55
		Total Labour Cost				$544.05
O	Small Vehicle Time		10.00	1.5		$15.00
T	Large Vehicle Time		42.00	7		$294.00
H	Other:	Material	145.00			$145.00
E		Contract				
R		Other	3.00			$3.00
		Total Other				$457.00
Total Cost						$1,001.05
	Specific Service Charge Value Requested - Round to nearest $5					**$1,000.00**

Assumes 1.5 hours for engineering plus 2 people 7 hours each to install/remove

Schedule 11-3: Specific Service Charges: Revenue

Rate Code	Description	Amount	2002 Volume	2003 Volume	2004 Volume	3-Year Average	Revenue
1	Arrears certificate	$15					
2	Statement of account	$15					
3	Pulling post dated cheques	$15					
4	Duplicate invoices for previous billing	$15					
5	Request for other billing information	$15					
6	Easement letter	$15					
7	Income tax letter	$15					
8	Notification charge	$15					
9	Account history	$15					
10	Credit reference/credit check (plus credit agency costs)	$15					
11	Returned cheque charge (plus bank charges)	$15					
12	Charge to certify cheque	$15					
13	Legal letter charge	$15					
14	Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	$30					
15	Special meter reads	$30					

Rate Code	Description	Amount	2002 Volume	2003 Volume	2004 Volume	3-Year Average	Revenue
16	Collection of account charge - no disconnection	$30					
17	Collection of account charge - no disconnection - after regular hours	$165					
18	Disconnect/Reconnect at meter - during regular hours	$65					
19	Install/Remove load control device - during regular hours	$65					
20	Disconnect/Reconnect at meter - after regular hours	$185					
21	Install/Remove load control device - after regular hours	$185					
22	Disconnect/Reconnect at pole - during regular hours	$185					
23	Disconnect/Reconnect at pole - after regular hours	$415					
24	Meter dispute charge plus Measurement Canada fees (if meter found correct)	$30					
25	Service call - customer-owned equipment	$30					
26	Service call - after regular hours	$165					
27	Temporary service install & remove - overhead - no transformer	$500					
28	Temporary service install & remove - underground - no transformer	$300					
29	Temporary service install & remove - overhead - with transformer	$1,000					
30	Specific Charge for Access to the Power Poles $/pole/year	$22.35					

Rate Code	Description	Amount	2002 Volume	2003 Volume	2004 Volume	3-Year Average	Revenue
Additional Charges - be Specific							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
					Total SSC Revenue		
	Revenue from Late Payment Charges						
Total SSC Revenue							
Revenue from Late Payment Charges							
Total							

Chapter 12

12 Other Regulated Charges

12.0 Introduction

This chapter provides guidance to distributors with respect to the charges related to the administration of the Standard Supply Service (SSS) (to be renamed the Regulated Price Plan (RPP)), Retail Service Charges, and Non-competitive Electricity Charges.

These charges are exclusive of the distribution monthly service charges, volumetric rates, and specific service charges covered in previous chapters.

For 2006, the levels of these charges will be maintained at their existing levels.

12.1 RPP (formerly SSS) Administration Charge

A standard charge of $0.25 per month, per customer.

12.2 Retail Service Charges

Retail services refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity.

12.2.1 Establishing Service Agreements

Charges to a retailer:

- standard charge (one-time charge) of $100 per agreement, per retailer (intended to recover the costs of entering into the service agreement required by the Retail Settlement Code)
- monthly fixed charge of $20 per month, per retailer (intended to recover the cost of contract administration and monitoring prudential requirements)
- monthly variable charge of $0.50 per month, per customer (intended to recover costs related to general accounting, administration services, and other communication and customer care services necessary to maintain the contract)

12.2.2 Distributor-Consolidated Billing

A standard distributor-consolidated billing charge of $0.30 per month, per customer, will be collected from the retailer (intended to recover the incremental costs incurred by a distributor in providing a distributor-consolidated, bill-ready service).

The charge for rate-ready billing will be determined based upon the incremental cost to the distributor to provide the service. A distributor must apply to the Board to establish the charge. If the Board has approved such a charge for a distributor, it is to be maintained at its current amount for 2006.

12.2.3 Retailer-Consolidated Billing

Under this arrangement, a distributor does not directly bill a customer. An avoided cost credit of $0.30 per month, per customer, will be paid to a retailer that chooses retailer-consolidated billing.

12.2.4 Service Transaction Requests (STR)

An STR is specific to an individual customer. Each fee will be charged on a per customer basis. These fees are intended to recover the incremental cost of labour, internal information system maintenance costs, and delivery costs.

- request fee of $0.25 per request (intended to recover costs incurred by a distributor for the initial screening process of a STR) regardless of whether or not the STR can be processed The request fee is applied to the requesting party.
- processing fee of $0.50 per request (intended to recover the costs incurred to process the transaction based upon rules and procedures set out under Chapter 10 of the RSC) applied to the requesting party if the request is processed

  The processing fee is applicable to the following services:
    - a change in electricity supply for a customer from SSS to a retailer
    - a change in electricity supply for a customer from one retailer to another
    - a change in electricity supply for a customer from a retailer to SSS
    - a change in a customer's metering or billing options for customers currently served by a retailer
    - a change in customer location

Fee for specific STRs

A retailer or customer may request customer information as outlined in Section 10.6.3 and in Chapter 11 of the RSC. A request to deliver data directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, will be honoured twice a year at no direct charge to retailer or customer.

Where requests exceed two per year, an information delivery charge of $2 per request, plus any incremental delivery costs, may be charged where a request is considered to be data delivered to a single address.

Default

Under Section 8.4 of the RSC, in the event of settlement payment default by a retailer, if the account remains unpaid after 10 business days from the date the settlement payment was due, and the parties have not agreed upon a remedy, the distributor may notify the retailer's customers that they will become SSS customers.

For the purposes of the 2006 Handbook, a distributor may treat this transfer as an STR requested by the retailer, and may recover the request and processing fee from the retailer.

Other associated costs

If a distributor provides an associated service (e.g. special meter reading) to facilitate the process of an STR, it may recover the applicable associated costs at the level specified in its rate schedule.

If the Board has approved such a charge for a distributor, it is to be maintained for 2006. If no rate is in place, the distributor may apply to the Board for a specific rate.

12.2.5 Monitoring and Cost Tracking

Distributors should establish or maintain the appropriate Retail Services Costs Variance Accounts (RCVA) to record the difference between charges rendered to customers and retailers, and the direct incremental costs for the provision of these services.

Details of the RCVA are set out in Account 490 of the Board's Accounting Procedures Handbook.

12.3 Non-Competitive Electricity Charges

This section provides a listing of the standard charges for non-competitive services. In all cases, the current Board-approved rates and charges are to be maintained for 2006.

12.3.1 Wholesale Market Service Rate

The rate of $0.0052/kWh applies to those customers of a distributor who are not wholesale market participants.

An embedded distributor who is not a wholesale market participant shall be treated as a customer to the host distributor and will be charged the same rate.

The Wholesale Market Service Rate shall be applied to the customer's metered consumption, adjusted by the distributor's total loss factor.

12.3.2 Retail Transmission Service Rates

There are two separate rates: the retail transmission network service rate, and the retail transmission connection service rate.

The existing rates will be maintained for 2006, and will apply to customers in each existing distribution customer class.

12.3.3 Charges/Taxes Levied by the Government of Ontario

While these charges/taxes are part of a customer's bill, the levels of these charges are not approved by the Board, and they will therefore not be part of the distributor's rate schedule or rate order.

Rural and Remote Rate Protection (RRRP) of $0.001/kWh.

Debt Retirement Charge of $0.007/kWh (or less, depending upon the percentage of a distributor's load supplied by the former Ontario Hydro).

Chapter 13

13 Mitigation

13.0 Impact Analysis

The establishment of distribution rates based upon an updated revenue requirement (as a result of revisions to rate base and return criteria), together with modifications to cost allocations and other rate design issues, will result in bill impacts to customers within a class, sub-class, or group.

Impact analyses will be provided by the EDR Model. An applicant must enter its 2005 rates into the 2006 EDR Model to allow the comparison to be made.

In conducting an impact analysis for each class or group of customers, both of the following three comparisons will be provided by the 2006 EDR Model:

- The comparison between bills based on the proposed and the existing rates (including Board-approved rate riders or adders), based upon a customer's "total" bill (including a commodity component and other rates), in order to get an order of magnitude.

  It is understood that the commodity price and other rates for 2006 are not known at this time. The bill comparison, therefore, will assume a constant commodity price and other rates, despite potential changes as a result of the Regulated Price Plan, other rate changes, and Smart Meter fees, as applicable.

- The comparison between bills calculated using the proposed and the existing rates (including any Board-approved rate riders or adders) based upon the total "delivery charge" component of the customer's bill (i.e. excluding the commodity component).

As with the total bill comparison, a constant commodity price and other rates will be assumed.

- The comparison between bills based upon the proposed and the existing rates (including Board-approved rate riders or adders), based upon the "distribution" component of a customer's bill (i.e. excluding the commodity component and other rates).

This comparison removes any uncertainty about the levels of the "non-distribution" rates, and only focuses on those aspects of a customer's bill that are directly approved by the Board.

13.1 Mitigation Methodologies

The applicant must file a mitigation plan if total bill increases for any customer class or group exceed 10%. The details of the proposed mitigation plan should be provided in Schedule 13-1. The applicant's filed version of the 2006 EDR model should incorporate any mitigation measures outlined in this Schedule.

13.2 Rate Harmonization (Amalgamated or Acquired Service Areas)

Distributors who have a merged, acquired, or amalgamated service area, and who have not yet fully harmonized the rates between or among the affected distribution utilities or service areas, may file a rate harmonization plan. The plan must include a detailed explanation, justification, implementation plan, and an impact analysis.

In the event that the combined impact of 2006 electricity distribution rate increases and harmonization effects result in total bill increases for any customer class or group exceeding 10%, the applicant should include a discussion of proposed measures to mitigate any such increases in its mitigation plan.

Schedule 13-1: Description of Mitigation Plan

The distributor must provide a detailed description of its mitigation plan by completing this Schedule. The following information should be provided:

1. A specification of all customer classes or groups of customers that were initially identified as having increases in excess of 10% and the magnitude of these increases.
2. The mitigation measures undertaken, e.g. reductions to the revenue requirement, inter or intra class shifts and their impacts.
3. A justification for all mitigation measures proposed.
4. A detailed description of all mitigation adjustments made to the 2006 EDR model.
5. Any other information the applicant believes is relevant.

Chapter 14

14 Comparators and Cohorts

14.0 Methodology

The comparators and cohorts mechanism will be used to assist Board Staff to screen 2006 rate filings by the distributors. The mechanism provides a basis to determine comparable peer groups (cohorts) and to compare the costs (comparators) of the distributors in the Province.

The comparators and cohorts mechanism is defined as a four-step analytical procedure, as follows:

1. Screen and Organize Distributor Data: Distributor data and information regarding costs, resource inputs, output quantities and technology and business descriptors will be analyzed with statistical tools. Statistical tools and methods will be utilized to assess data quality (reliability, accuracy, and consistency), and to help understand relationships among data. For each of the unbundled services, the data will be organized according to defined cost categories.
2. Determine Cost Drivers with Econometric Methods: Econometric methods will be utilized to determine the statistical relationships between cost categories and resource inputs and cost drivers. Cost drivers include output quantities and unit-of-output quantities; and market context and technology descriptors (together referred to as business context*)*.
3. Determine Cohorts with Clustering Methods: Distributors will be assigned to cohorts with cluster analysis. Cluster analysis will group distributors according to similarity of cost drivers including output quantities and business context.
4. Determine and Report Cost Comparators: For pre-defined comparators, each distributor will be gauged according to its relative position within the statistical distribution of costs of the distributors within its cohort (peer group) and as a whole.

The final specification of the cost driver models and the cohorts will be influenced by the data and may vary somewhat from the procedure outlined above.

14.1 Filing Requirements

The comparators and cohorts will be determined on the basis of data filed by distributors as part of the Reporting and Record-keeping Requirements (RRR), so that no additional filings will be required. The data used will be that filed for the calendar report years of 2002, 2003 and 2004. The Board's Chief Regulatory Auditor has required distributors to review, confirm and/or revise their trial balance and Performance-Based Regulation data filed in accordance with the RRR. This filing was due April 30, 2005. It is expected that analysis of all available data will begin in May.

While the RRR data upon which the comparator and cohort analysis will be filed in advance and separately from the 2006 rate applications, there should largely be consistency between the RRR data and the rate filings.

14.2 Use and Publication

The results of the analysis performed on this information will be available to Board staff, all distributors and the public.

Chapter 15

15 Service Quality Regulation

15.0 Introduction

This chapter provides the definitions and reporting requirements of distribution service quality indicators, and the minimum standards set for the service quality indicators. In accordance with Section 2.1.4 of the Board's Reporting and Record-keeping Requirements, a distributor is required to report, by January 31, its service quality and reliability performance for the previous calendar year. A list of the service quality metrics that a distributors is required to measure and report on are provided in Table 15-1.

Table 15.1
Service Quality Indicators

Customer Service	Service Reliability
Connection of new services Underground cable locates Appointments Telephone accessibility Written response to enquiries Emergency response	System average interruption duration index System average interruption frequency index Customer average interruption duration index

As part of its application for 2006 distribution rates, an applicant must file in Schedule 15-1 a summary of its annual service quality performance for 2002 to 2004.

The service quality indicators, the associated monitoring and reporting requirements and the minimum standards (where applicable) are described below. These standards represent the minimum acceptable performance levels. An distributor should continue to establish its operating performance at levels no less than the minimum standards, taking into consideration the needs and expectations of its customers.

In the absence of consistent historical service quality data, it was not possible to identify service degradation during first generation PBR. The Board has initiated an Service Quality Regulation review (RP-2003-0190) that may determine thresholds for service degradation and what regulatory actions should be taken to deal with instances of degraded service. As a result, no revisions to the SQIs will be made for the 2006 rate application process. With the exception of the underground cable locates section, the rest of this Chapter largely repeats the material from the 2000 Handbook.

15.1 Customer Service Performance Indicators

A customer service indicator measures direct contact with the customer. In setting the customer service standards, minimum standard guidelines are provided that are intended to maintain customer service quality, while providing a distributor with flexibility to set service levels to the demands of their customers above the minimum guidelines. A distributors is expected to achieve the minimum standards for a specified percentage of the time.

15.1.1 Connection of New Services

The connection of new services indicator measures the percentage of requests that are met within the required minimum performance standard.

As a minimum performance standard for the connection of new universal services, new low voltage (<750 volts) services must be connected within 5 working days from the day on which all conditions of service are satisfied, including electrical safety inspection, at least 90% of the time. New high voltage (>750 volts) service must be connected within 10 working days from the day on which all conditions of service are satisfied, including electrical safety inspection, at least 90% of the time.

The conditions of service that may need to be satisfied include the following:

- payment of connection fees
- signing of service contracts
- completion of distribution system extensions
- provision of adequate lead times for delivery of equipment
- receipt of an electrical safety inspection certificate

The distributor must monitor its performance monthly and report the information annually to the Board. The monthly information is to be reported as follows:

(1) number of new low voltage services connected

(2) number of new low voltage service connected within 5 working days

(3) percentage of requests for new low voltage service met within 5 working days [((2*100)/(1)]

(4) number of new high voltage service connected

(5) number of new high voltage service connected within 10 working days

(6) percentage of requests for new high voltage service met within 10 working days [((5*100)/(4)]

15.1.2 Underground Cable Locates

The underground cable locates indicator measures the percentage of requests for cable locates that are completed within the minimum performance standard.

The current minimum standard contained in the Board's service quality requirements is that underground cable locates must be completed within 5 working days of a customer's request, at least 90% of the time. For customers requesting a specific date, the locate must be completed within 5 working days of the requested date.

Since the service quality indicators were developed in 1999, Ontario Regulation 22/04 has been proclaimed in force, and Utility Advisory Council, working with the Electrical Safety Authority, has developed a "Guideline for Excavating in the Vicinity of Distribution Lines". The Regulation requires electricity distributors to respond to cable locate requests within a reasonable time. The Guideline indicates that the distributor shall make every reasonable effort to respond to notification requests and provide locates within 5 working days of notification. This five day standard may be shortened to two or three days as discussions at the Utility Advisory Council proceed.

Adherence to the standards set out in Regulation 22/04 is a legal requirement. The guidelines developed in consultation with the Utility Advisory Council received broad distributor input. Distributors are reminded that the Service Quality Indicators adopted by the Board represent minimum standards and were put in place by the Board to measure distributor performance over time. Under no circumstances should the SQIs be interpreted to suggest that the OEB is authorizing distributors to deviate from prevailing safety or engineering standards, standards set by law or standards contained in guidelines developed by other authorized regulatory agencies. The question of consistency between reported SQIs and technical and safety standards will be considered by the Board in its next review of its SQIs.

The cable locates included in this standard do not include emergency locates.

The distributor must monitor its performance monthly and report the information annually.

The monthly information is to be reported as follows:

(1) number of cable locates requested

(2) number of cable locates performed within 5 working days

(3) percentage of requests met within 5 working days [((2*100)/(1)]

15.1.3 Telephone Accessibility

The telephone accessibility indicator measures the percentage of incoming calls to the general enquiry telephone number answered within the minimum of the performance standard.

As a minimum standard, incoming calls to the general enquiry telephone number must be answered in person by an operator within 30 seconds, at least 65% of the time. The provision of a voice mailbox or answering machine does not constitute compliance with this measure.

The distributor must monitor its performance monthly and report the information annually.

The monthly information is to be reported as follows:

(1) number of general enquiry telephone calls answered

(2) number of general enquiry telephone calls answered within 30 seconds

(3) percentage of general enquiry telephone calls answered within 30 seconds [((2*100)/(1)]

15.1.4 Appointments Met

The appointments indicator measures the percentage of appointments at a customer's premises or work site that are met at the appointed time within the minimum performance standard.

As a minimum standard, when it is necessary to meet a customer at the customer's premises or work site to conduct utility business, customers must be offered a choice of morning or afternoon appointments. The appointments must be met at the appointed time, at least 90% of the time. If the appointed time cannot be met, the distributor must notify the customer.

The distributor must monitor its performance monthly and report the information annually.

The monthly information is to be reported as follows:

(1) number of appointments at a customer's premises or work site made

(2) number of appointments at a customer's premises or work site kept at the appointed time

(3) percentage of appointments at a customer's premises or work site made within minimum standard [((2*100)/(1))]

15.1.5 Written Responses to Enquiries

The written response to enquiries indicator measures the percentage of responses to enquiries that require written responses that are made within the minimum performance standard.

The minimum standard for responding to requests by a customer or an agent of the customer for written information relating to the customer's account, will be within 10 working days following receipt of the request. The written response time must be met at least 80% of the time.

The distributor must monitor its performance monthly and report the information annually.

The monthly information is to be reported as follows:

(1) number of requests for written responses

(2) number of requests for written responses provided within 10 working days

(3) percentage of requests for written responses met within minimum standard [((2)*100/(1))]

15.1.6 Emergency Response

The emergency response indicator measures the percentage of emergency responses that are made within the minimum performance standard.

At a minimum, emergency trouble calls (e.g. fire, ambulance, police) will be responded to within 120 minutes in rural areas, and within 60 minutes in urban areas. The definition of rural and urban should correspond to the municipality's definition. The arrival of a qualified service person on site will constitute the response. The minimum standards must each be met at least 80% of the time.

The distributor must monitor its performance monthly and report the information annually.

The monthly information is to be reported as follows:

(1) number of emergency calls for rural customers

(2) number of emergency calls for rural customers at which qualified staff were on site within 120 minutes

(3) percentage of emergency calls for rural customers met within 120 minutes [((2*100)/(1)]

(4) number of emergency calls for urban customers

(5) number of emergency calls for urban customers at which qualified staff were on site within 60 minutes

(6) percentage of emergency calls for urban customers met within 60 minutes [((5*100)/(4)]

15.2 Service Reliability Indices

Service reliability indices measure system outage statistics. The monitoring and reporting of service reliability indices are intended to encourage distributors to maintain or improve the existing service reliability performance of its electrical distribution system.

15.2.1 System Average Interruption Duration Index (SAIDI)

SAIDI is an indicator of system reliability that expresses the length of outage customers experience in the year on average. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as the total hours of power interruptions normalized per customer served, and is expressed as follows:

$$SAIDI = \frac{Total\ Customer\ Hours\ of\ Interruption}{Total\ Number\ of\ Customers\ Served}$$

A distributor is required to monitor this index monthly and to report to the Board on an annual basis.

A distributor that has at least 3 years of data on this index should, at minimum, remain within the range of its historical performance.

The monthly information is to be reported as follows:

(1) total customer-hours of interruptions

(2) total number of customers served

(3) SAIDI [(1)/(2)]

15.2.2 System Average Interruption Frequency Index (SAIFI)

SAIFI is an indicator of the average number of interruptions each customer experiences. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as, the number of interruptions normalized per customer served, and it is expressed as follows:

$$SAIFI = \frac{Total\ Customer\ Interruptions}{Total\ Number\ of\ Customers\ Served}$$

A distributor is required to monitor this index monthly and to report to the Board on an annual basis.

A distributor that has at least 3 years of data on this index should, at minimum, remain within the range of their historical performance.

The monthly information is to be reported as follows:

(1) total number of customer interruptions

(2) total number of customers served

(3) SAIFI [(1)/(2)]

15.2.3 Customer Average Interruption Duration Index (CAIDI)

CAIDI is an indication of the speed at which power is restored. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as the average duration of interruptions in the year, and it is expressed as follows:

$$CAIDI = \frac{SAIDI}{SAIFI} = \frac{Total\ Customer\ Hours\ of\ Interruption}{Total\ Customer\ Interruptions}$$

A distributor is required to monitor this index monthly and to report to the Board on an annual basis.

Table 15.2
Cause of Service Interruption

Code	Cause
0	**Unknown/Other** Customer interruptions with no apparent cause that contributed to the outage
1	**Scheduled Outage** Customer interruptions due to the disconnection at a selected time for the purpose of construction or preventive maintenance
2	**Loss of Supply** Customer interruptions due to problems in the bulk electricity supply system
3	**Tree Contacts** Customer interruptions caused by faults resulting from tree contact with energized circuits
4	**Lightning** Customer interruptions due to lightning striking the distribution system, resulting in an insulation breakdown and/or flash-overs
5	**Defective Equipment** Customer interruptions resulting from equipment failures due to deterioration from age, incorrect maintenance, or imminent failures detected by maintenance
6	**Adverse Weather** Customer interruptions resulting from rain, ice storms, snow, winds, extreme temperatures, freezing rain, frost, or other extreme weather conditions (exclusive of Code 3 and Code 4 events)
7	**Adverse Environment** Customer interruptions due to equipment being subject to abnormal environments, such as salt spray, industrial contamination, humidity, corrosion, vibration, fire, or flowing (previously Code 9)
8	**Human Element** Customer interruptions due to the interface of distributor staff with the system (previously Code 7)
9	**Foreign Interference** Customer interruptions beyond the control of the distributor, such as animals, vehicles, dig-ins, vandalism, sabotage, and foreign objects (previously Code 8)

A distributor that has at least 3 years of data on this index should, at minimum, remain within the range of their historical performance.

The monthly information is to be reported as follows:

(1) total customer hours of interruptions (SAIDI)

(2) total number of customer interruptions (SAIFI)

(3) CAIDI [(1)/(2)]

15.3 Cause of Service Interruption

Monitoring the cause(s) of outages, in addition to monitoring the system reliability indices, provides valuable information as to the remedial work required. A distributor should therefore maintain a record of the causes of the outages, at a minimum, in accordance with the list presented in Table 15.2.

While annual reporting of this information to the Board is not mandatory, the Board will expect the distributor to produce this information should a review of its service reliability be necessary.

The following cause codes have been updated to correspond with the Canadian Electrical Association's guidelines.

Schedule 15-1: Service Quality and Reliability Performance 2002 to 2004

Service Quality and Reliability Performance

A distributor is required to provide its summary annual performance for the years 2002 to 2004 inclusive for the reported service quality and reliability indicators. These statistics are the same as the annual statistics from a distributor's RRR section 2.1.4 filing for each report year. Where there have been changes in a distributor's structure, due to a merger, acquisition, or divestiture, the distributor is requested to provide its performance according to its actual structure at the time of its RRR filing. This may require the distributor to report the information on a separate schedule.

Service Quality Indicators

1a. Connection of New Services – Low Voltage

Standard: 90% or better

2002	2003	2004

1b Connection of New Services – High Voltage

Standard: 90% or better

2002	2003	2004

2 Underground Cable Locates

Standard: 90% or better

2002	2003	2004

3 Appointments Met

Standard: 90% or better

2002	2003	2004

4 Telephone Accessibility (Telephone Service Factor)

Standard: 65% or better

2002	2003	2004

5 Written Responses to Enquiries

Standard: 80% or better

2002	2003	2004

6a Emergency Response - Urban

Standard: 80% or better

2002	2003	2004

6b Emergency Response - Rural

Standard: 80% or better

2002	2003	2004

Reliability Indicators

7 SAIDI (System Average Interruption Duration Index)

Standard: Within the range of performance over the previous 3 years

2002	2003	2004

8 SAIFI (System Average Interruption Frequency Index)

Standard: Within the range of performance over the previous 3 years

2002	2003	2004

9 CAIDI (Customer Average Interruption Duration Index)

Standard: Within the range of performance over the previous 3 years

2002	2003	2004